UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
GENERAL

DP/1991/23
13 May 1991

ORIGINAL: ENGLISH

Thirty-eighth session
3-21 June 1991
Item 4 (c) of the provisional agenda

PROGRAMME IMPLEMENTATION

IMPLEMENTATION OF DECISIONS ADOPTED BY THE GOVERNING COUNCIL AT ITS PREVIOUS SESSIONS

National execution

Report of the Administration

SUMMARY

The present report responds to requirements set out in Governing Council decision 90/21 of 22 June 1990, in which the Council requested the Administrator to submit proposals for assisting recipient Governments to build up their programme management and administrative capacities. In preparing his response, the Administrator has consulted Governments and the United Nations specialized agencies. He has been mindful of the requirements of the implications of the growth of the modality.

The present report briefly reviews existing legislation, derives a coherent policy framework and outlines proposals for action. Some of the proposals are part of UNDP ongoing activities. Others will need more specific development. The proposals reflect the legislative mandates of General Assembly resolution 44/211 of 22 December 1989. The directives to be considered include: (a) the pursuit of national execution as the ultimate modality; (b) the strong observation of the Administrator's full accountability; (c) involvement of the specialized agencies of the United Nations wherever feasible and desirable; (d) the shift from a project to a programme approach; and (e) increased decentralization to support development of national capacity.

INTRODUCTION

1. At its thirty-seventh session (1990), the Governing Council adopted three interrelated decisions which, taken together, constitute a legislative and policy framework for the United Nations Development Programme (UNDP) for the 1990s. These decisions include decision 90/21 on national execution; 90/26 on successor arrangements to agency support costs; and 90/34 on the fifth programming cycle.

2. Based on this framework, the Administrator has been requested to present a set of comprehensive and detailed proposals to the Governing Council at its thirty-eighth session on the implementation of these decisions. The present report will deal with the significant issues relating to national execution but should be considered in the context of the overall policy package, which will include, inter alia, proposals arising from the new support cost system as well as innovations such as the programme approach. References will be made to those proposals.

3. The present report will provide the proposals requested by the Governing Council. It will identify the comprehensive policy considerations which guide the proposals. It will, in doing so, briefly review past experience and legislation and derive lessons for future action.

I. REVIEW OF LEGISLATION AND EXPERIENCE

4. National execution is an evolving concept. In the 15 years since its introduction in 1976, concept and practice have changed and developed continuously. The purposes for which national execution has been used have covered a wide spectrum, including such factors as an assertion by the government of ownership and managerial control, administrative convenience, or the opportunity to mobilize cost-sharing resources. With the discovery of new uses and applications, national execution has grown steadily - from slow beginnings in the late 1970s, to almost 15.5 per cent of all new approvals in the fourth programming cycle.

5. Legislation and experience have evolved side by side. As operational experience with various areas of applications has accumulated, the Governing Council has established new legislation to deal with unintended and unforeseen problems of implementation. New legislation, on the other hand, has led to new opportunities and fresh experience. And the process has gone on.

6. The history of national execution can be divided into three periods, roughly coinciding with the second, third and fourth programming cycles of UNDP. The highlights of those years are given below, followed by the indications of the fifth programming cycle.

A. Second programming cycle: 1977-1981

7. The main stages in this period were:

(a) Government execution was introduced in 1976 as part of the new dimensions legislation; growth was slow;

(b) The Governing Council has continued to request the Administrator to make proposals for achieving increases in the pace of government execution;

(c) Concern in the early years was over UNDP requirements, particularly financial, which were considered burdensome for Governments to comply with; the Governing Council requested simplification of procedures.

B. Third programming cycle: 1982-1986

8. In this programming cycle, the main points of interest were:

(a) The Administrator made an innovative proposal for the establishment of an add-on fund, which could provide an incentive to Governments to undertake government execution;

(b) There was a steady increase in government execution, averaging 11 per cent of new approvals for the cycle;

(c) Growth was limited to 10 countries of concentration. Initially, the projects were generally one of a kind, administrative in nature and requiring delivery of one or two project components only. Many advanced developing countries did not adopt government execution;

(d) Several unintended consequences of government execution occurred:

(i) Governments, in many cases, found their administrative mechanisms and regulations not suited for dealing with grant technical cooperation projects. UNDP field office support was sought with a resultant significant increase in field office administrative workload;

(ii) Financial reporting was poor, leading to concern over accountability; requirements were not well understood by Governments; changes in UNDP financial procedures brought about limited improvements;

(iii) UNDP external auditors qualified UNDP accounts because of, inter alia, poor performance in financial reporting and auditing of government-executed projects;

(iv) Use of United Nations specialized agencies in government execution was limited, leading to loss of technical contribution and support by agencies.

C. Fourth programming cycle: 1987-1991

9. In the fourth programming cycle, the main elements have been:

(a) Increases in government execution continued but peaked in the early years of the cycle. There has been a stagnation, and, in some countries, a reduction in the use of the modality;

(b) Countries where the modality was concentrated increased from 10 in the third cycle to 25 in the fourth cycle, suggesting a maturation in the process;

(c) The field office role is becoming institutionalized. Programme support units using various administrative arrangements have been established to provide services to Governments;

(d) Vigorous follow-up by UNDP internal auditors with the auditing establishments in countries and the use of private auditing firms have resulted in improved performance in reporting and auditing.

D. Fifth programming cycle: 1992-1996

10. The following points are of importance for the future of national execution as UNDP enters the fifth programming cycle:

(a) New legislation contained in General Assembly resolution 44/211 and Governing Council decisions 90/26 and 90/21, has established new instruments, the use of which may make national execution more effective. In addition, the promotion of national execution has become an important legislative priority.

(b) A coherently programmed expansion requires strong support from the United Nations system (both technical and administrative) as well as the creation and strengthening of capacities and the removal of administrative blockages and constraints. It calls for a shift from a project-by-project approach to a more comprehensive programme orientation.

II. A FRAMEWORK FOR NATIONAL EXECUTION

11. A review of the legislation, particularly General Assembly resolution 44/211 and Governing Council decision 90/21, shows that the governing bodies have had two principal aims in promoting national execution:

(a) To ensure that "recipient Governments have sole responsibility for the coordination of external assistance and the principal responsibility for its design and management", recognizing that "the exercise of those responsibilities is crucial to the optimal use of external assistance".

(b) To make full utilization of and to strengthen national capacities in order to promote self-reliance and sustainability.

12. In fact, the legislative intent which underlay the original new dimensions legislation was to promote self-reliance on the part of recipient governments and to help them assert and assume management and direction of externally funded development projects.

13. It is clear, therefore, that, as seen by the legislators, execution is a broad concept. It connotes the assumption of responsibility for programmes and projects and for their ownership, direction and management. It applies to all stages of the programme and project cycle, including upstream as well as downstream activities.

14. In translating legislative aspirations to operational experience, governments and the United Nations system have tended to focus on the implementation end of the project cycle. This operational concentration has resulted in setting up a dichotomy between government implementation and implementation by United Nations specialized agencies, making one a substitute for the other. Thus, in government-executed projects, it has denied governments and UNDP the technical resources of the United Nations specialized agencies at various stages of the project cycle. That is to say, it has restricted choice to one between use of a United Nations specialized agency or a government unit as an implementing agency.

15. It is in recognition of the broader dimensions of this issue that the Administrator proposed to the Council in his report on national execution (DP/1990/33) (as the Council noted in decision 90/21) that the official definition of national execution be revised and that a distinction between execution and implementation be drawn. The latter refers to that stage of the project cycle at which project inputs are procured and delivered, a project workplan is put into action and outputs produced, while the former is a broader concept embodying responsibility and management at all stages of the project cycle.

16. A broader framework, made possible by this conceptual change, is essential for the further development of national execution in the fifth programming cycle. This broader framework must:

(a) Identify and create or strengthen national capacities in various aspects of the execution of externally assisted development projects; and

(b) Ensure the availability to governments of United Nations system technical services at the various stages of the programme and project cycle;

(c) Accommodate the concept of choice for governments in designing implementation modalities under national execution;

(d) The national execution of programmes/projects will be enlarged and made more effective by the achievement of the above.

17. The policy of UNDP with respect to national execution, as it has emerged from the foregoing process, is as follows:

(a) UNDP will implement faithfully, and with full commitment, the provisions of the applicable legislation cited above;

(b) The application will be country-specific; the government shall be the principal agent in determining the speed and manner of implementation, taking into account UNDP assessment of national capacity required to undertake the responsibilities involved;

(c) The use and/or strengthening of existing national capacities for execution and implementation will be fully supported by making available the technical capacity of the United Nations system, in particular, through the facilities being established under the support cost successor arrangements;

(d) UNDP will facilitate the availability of United Nations system inputs and services (managerial, technical policy, advisory, etc.) at the various stages of the programme/project cycle;

(e) UNDP will facilitate the exercise of choice by governments in designing implementation methods for solving the development problem concerned;

(f) The mobilization of managerial capacity, either from within the country or from outside, for the effective management and implementation of the programmes/projects will be fully supported;

(g) In order to establish the required capacity for a transitionary period and when requested to do so, the managerial and administrative capabilities of the UNDP field office may be made available, in an appropriate manner, to the national units that may need them.

18. In implementing this policy, UNDP will be guided by the wishes of the government concerned and will pay due regard to the accountability of the Administrator for programme quality, relevance and impact as well as to the essential need for rigorous financial management and reporting.

III. STRENGTHENING NATIONAL CAPACITY FOR SELF-RELIANCE

19. In order to sustain the contribution of national execution to strengthening national capacity, in the context of the emergence of new concepts, a re-examination of the methods by which growth has been achieved provides many important lessons to guide future action.

20. As pointed out in section I, in the early years, countries wishing to introduce government execution in their programmes did so initially with one or two isolated, small projects. These projects were usually of an administrative nature involving one or two project components only. Such experimentation was expected to provide sufficient experience, based on which progressively enlarged use of national execution could be made over a period of time. While this incremental approach has been effective in some countries, some lessons of experience are now clear. These lessons affect

national execution and the consequent implementation actions which the modality engenders. They are:

(a) UNDP experience with the modality of national execution over the past 15 years has generally been acquired on a project-by-project basis. Although capacity-strengthening has occurred through UNDP support, this approach did not easily permit the development of a comprehensive view of national capacity, its constraints and its strengths. Capacity assessment was predicated on the needs of individual projects, and rarely was a sector-wide or programme-level assessment undertaken. Sometimes, within the same sector, differing capacity assessments have led to differing responses;

(b) Experimentation with one or two projects has usually not provided the basis on which national execution could be expanded in a country. Attempts to do so, without the necessary support - technical and administrative - have inevitably limited their effectiveness;

(c) Further, this approach made the development of a national capacity for administrative management of UNDP-financed projects relatively unattractive. The many different patterns of finance and administration within governments did not lend themselves easily to the integration of United Nations financial and audit requirements. Although these have now been greatly simplified and attuned to national needs, it still remains more attractive, in some cases, for external agents to handle some aspects of execution and implementation;

(d) As they were one-time projects, the host institutions were not geared to provide the services required for implementation. As a consequence, the UNDP field office became responsible for carrying out the projects. The experience gained by the institutions themselves was, therefore, limited.

21. A review of experience has shown that national execution cannot be expanded through a project approach alone. To ensure that projects and programmes are nationally managed in an integrated manner, a suitable pattern of national execution in response to each country's needs must be developed in collaboration with the government. In determining each country's needs, a realistic assessment of capacity for policy-making, for programme and project formulation, implementation, monitoring and evaluation and follow-up is called for. At its simplest level, this type of analysis is not new - indeed, most technical cooperation project designs are based on some assessment of an organization's strengths and weaknesses. The essential difference to be recognized is the need to shift the concern to a more holistic view of the organization, its role in the sector concerned and its capacity to deal with multisectoral linkages. This approach will also strengthen the coordination role of governments as they seek to integrate national and external capacities to achieve programme goals. In doing so, all issues of execution should be addressed comprehensively, including such subjects as the infrastructural support needed at the central and sectoral levels; the need to adapt and harmonize governmental and United Nations system procedures; and the identification of administrative blockages and constraints.

Proposals

22. Some proposals for strengthening national capacity for self-reliance are given in the following paragraphs.

23. The introduction or expansion of national execution in a country at the programme level should begin with a comprehensive discussion with the government on the sectors or intersectoral programmes in which national execution would be introduced. An understanding should be reached on the capacities for execution available in those areas, including the need for strengthening such capacities. In this context, it should be pointed out, as stated in paragraph 2 of decision 90/21, that the existence of capacity in all aspects of the project cycle is not a prerequisite for the introduction of national execution. In this context, it should be noted that the national technical cooperation assessments and programmes (NATCAP) exercise is designed to produce, as one of its outputs, such an assessment of capacities. The United Nations specialized agencies can also be helpful in this process in their sectors of competence.

24. At the country level, the government will be briefed, at the appropriate level, of the range of choices available to it throughout the programming cycle. In doing so, as called for in paragraph 6 of decision 90/21, the capacities available within the United Nations system will be brought to the attention of the government. This will be achieved at many levels; for example, directly to governments through the resident coordinators, through the workshops conducted by the training course of the International Labour Organisation (ILO) in Turin and by the specialized agencies themselves.

25. UNDP will also help in mobilizing capacity available in the country to support the national execution of programmes and projects. One of the critical capacities needed is managerial and UNDP may well be called on to assist in obtaining managerial services from outside the government, which may not be otherwise available. UNDP can assist particularly in setting up the appropriate management structure to support and execute the programmes. In this context, and with reference to add-on funds, reference is made to paragraph 12 of Governing Council decision 90/26, in which the Council decided that "resources saved by not having to compensate external agents would be available for use within the country programme in accordance with national priorities and taking into account the desire to promote the development of national capacity". Therefore, with the introduction of the support cost successor arrangements, the add-on concept will apply only to those projects approved before 1 January 1992. With regard to new projects, the operational and administrative costs associated with any external agents providing services to governments will be a charge to the 10 per cent IPF sub-line. Such support would be provided in the form of a project, and thereby be requested and approved by the government. The Administrator intends to develop guidelines that will elaborate UNDP policies with regard to the use of such projects.

IV. NATIONAL EXECUTION AND THE PROGRAMME APPROACH

26. In paragraph 4 (a) of decision 90/21, the Governing Council requested the Administrator to make proposals to the Council for "assisting recipient governments to build up ... capacities, taking into account the need for more programme-oriented mechanisms for the provision of technical co-operation, with a view to allowing more flexible and effective support of national programmes."

27. The concepts of the programme approach and national execution are related. Equally related are the concepts of decentralization and delegation of authority, which are essential to ensure responsiveness to national requirements and cost-effectiveness. The proposals of the Administrator in this regard are contained in the comments on the management consultants' report (DP/1991/51). It is argued in the present report that national execution is a broad concept covering upstream and downstream activities and implies national direction and management of the process. The programme approach refers in the main to national programmes. A programme approach is undertaken by a government when it has: (a) established a clear national development objective; (b) made a national commitment to achieve that goal within a specified time frame; and (c) resolved to address comprehensively all the issues and strategies needed to reach that objective. There is a complementarity between national execution and the adoption of a national programme approach because both are national in scope, carried out under national direction and dealt with at the level of the programme. The latter is carried out more effectively under national execution than under any other modality.

28. UNDP will play a supportive role to the government, along with its technical partner agencies, in both of these exercises. It will do so by lending support to the formulation of national programme strategies and programmes, assisting in the management of the programme and helping to mobilize external resources for the execution of the programme.

Proposals

29. UNDP has identified several mechanisms by which a programme approach on the part of a government can be supported. Some of these coincide with the proposals advanced in support of national execution. They include:

(a) Assistance in the formulation of sectoral programmes, jointly with the relevant United Nations specialized agencies, and provide policy advice, possibly by utilising the technical support facility (TSS-1) at the programme level;

(b) Assistance in the management of national programmes by mobilizing managerial resources nationally and internationally for them;

(c) Assistance in the mobilization of financial resources and the strengthened coordination of programme;

(d) Full support to a significant range of technical cooperation needs for institutional strengthening in order to achieve programme goals, through direct support to the programme.

V. STREAMLINING IMPLEMENTATION

30. The successful achievement of the policy goals laid down by the Governing Council also requires that attention be paid to the implementation aspects of the programmes and projects which are nationally executed. The policy recognizes that under national execution, while responsibility for execution is uniquely that of the governments, implementation will utilize a broad range of national, international and multilateral institutions to achieve development goals.

31. Thus, a review should be made by UNDP of the essential governmental procedures and systems, bearing in mind the UNDP requirements, particularly in relation to the Administrator's accountability, with a view to establishing a mutually acceptable and consistent set of procedures and systems which would govern nationally executed programmes and projects in a country. The domestic areas to be covered should include:

(a) Procurement of inputs (equipment and services), both local and international;

(b) Recruitment and administration of personnel, both national and expatriate;

(c) Financial systems, including the operation of foreign currency bank accounts, the disbursement of funds, financial certification and reporting;

(d) Monitoring, evaluation and reporting systems; and

(e) Auditing arrangements.

32. It is not, therefore, only the role of the UNDP in general, but also that of its field offices, in supporting national implementation that must be explicitly considered; agreement must also be reached on the services to be provided by UNDP and the means of financing those services. The role of the Office for Project Services (OPS) in this effort should also be considered.

33. Depending on the scale of operations and country requirements, the need for a central government programme support unit to provide administrative and procurement services to individual projects should be considered. In doing so, such important factors as its location, source of financing and legal status should be taken into account.

34. An effort should be undertaken to identify domestic blockages and administrative constraints which have hampered implementation in the past, not only for UNDP-financed projects but for other foreign-assisted projects as

well. The relevant United Nations agencies such as the United Nations Department for Technical Cooperation for Development (UNDTCD) could be associated with this effort. A typical example relates to the flow of financial information and reporting in the government and its consequences for continued resource availability for development. The transfer of financial information from an implementing agency in the government through a coordinating ministry and central bank to the external donor organization has resulted in significant delays in reporting and also, therefore, in receiving reimbursements. A systematic study of the internal financial flows and information, assisted by a competent agency, could result in significant improvements in the capacity to handle financial reporting.

35. Finally, the involvement of the United Nations specialized agencies in an assessment of national implementation capacities in priority sectors and in a programme of strengthening such capacities should be worked out.

VI. THE ROLE OF UNITED NATIONS SPECIALIZED AGENCIES IN NATIONAL EXECUTION

36. From the discussion of the previous issues, it would appear that a major challenge in enlarging national execution in the 1990s and achieving its legislative promise lies in the effective use and association of the United Nations system capacities - those of UNDP and the United Nations specialized agencies - in nationally executed programmes. The experience of the last 15 years has not been encouraging in this respect. United Nations specialized agencies have been used only to a very limited extent in national execution. Although certain procedures had been devised to facilitate their participation (such as their use as an associated agency, the possibility of obtaining technical services on an ad hoc basis, etc.), these measures have not been fully effective. It is also recognized that the lack of a suitable formula for the reimbursement of costs to agencies may have reduced their involvement in nationally implemented projects.

37. It is also important to recognize that during this period, many changes have taken place which require a careful country-by-country analysis. New implementation agents have appeared on the international development scene: non-governmental organizations (NGOs), private sector firms and national institutions, public and private. The changes notwithstanding, the demand for building capacity at various levels is not only different from that related to projects but also far exceeds the supply available. There is, therefore, a significant continuing role for United Nations specialized agencies at both the upstream and, where appropriate, at the downstream level.

38. In addition, the technical monitoring and evaluation of nationally implemented projects has to be assured through the involvement of the technical partners of UNDP so that substantive programme accountability is also rendered complete.

39. It is in this context that the instrumentalities established by the Governing Council through its decision on successor arrangements to agency support costs could provide a powerful opportunity for enhancing the technical role of the specialized agencies in national execution as well as in transferring to the government their accumulated experience in the execution of programmes and the implementation of projects.

Proposals

40. Some proposals concerning this issue are given in the following paragraphs.

41. The primary substantive involvement of the specialized agencies in national execution should be at the programme level. This could take the following forms:

(a) As stated earlier, agencies should help make assessments of national capacities for execution in their sectors of competence. They could further help to identify and assess national institutions which could be used in a technical capacity or as implementing agents in nationally executed projects;

(b) At the sectoral level, agencies can assist in formulating sectoral strategies and programmes through the technical support facility (TSS-1) being established at the programme level. Such efforts would enhance national execution, broadly defined, in upstream activities.

42. The role of agencies in launching national execution in a country is described in paragraphs 36-39. In order to perform this vital function, it is suggested that a multi-agency effort, led by UNDP, be organized. The purpose of this effort would be as follows:

(a) To carry out, at the request of the government concerned, the required interdisciplinary studies at the country level. Such studies would include identifying areas where national capacities need strengthening as well as conducting surveys of national institutions as potential participants in the national implementation of projects;

(b) To participate in an analysis of the administrative and technical capacities and the blockages which exist in making effective use of such capacities in the sectoral ministries and other organs of the government;

(c) To assist in organizing training programmes in the execution and management of development programmes. The ILO Turin Centre is a good example of this service.

43. In order to carry out the above, consideration may be given to the establishment of an inter-agency facility for the creation and enhancement of national capacities for national execution and the management of development programmes.

44. At the project level, the establishment of a technical facility (TSS-2) as part of the successor arrangements for, inter alia, the technical monitoring of nationally implemented projects, will help enhance the technical quality of implementation.

VII. ACCOUNTABILITY

45. The evaluation of nationally executed projects, conducted by UNDP in 1988, drew attention to the lack of systematic monitoring, evaluation and reporting on programme performance. There is evidence that the situation has been improving. However, there is more to be done in this regard, especially if the modality is to grow further.

46. On the substantive monitoring of projects, UNDP has helped establish a monitoring and evaluation capacity in several countries for nationally implemented projects. Such efforts should continue.

47. Concern in the Governing Council over the accountability of the Administrator for the effective use of resources and quality of implementation has been increasing, particularly because of poor performance in the auditing and reporting of projects. In its decision 90/21, the Council has again requested the Administrator to "take all measures to maintain his accountability and continue to apply ... accepted standards of accountability normally applying to the programmes ... of UNDP".

48. It should be reported that, as a result of vigorous follow-up by the internal auditors of UNDP, compliance with auditing requirements was satisfied in over 80 per cent of the reported programme expenditures for 1989. This was made possible by seminars held by UNDP with the Auditors-Generals of the countries who are large users of national execution. In addition, private auditing firms were used when requested by the governments concerned. The relative success achieved is confirmation of the effectiveness of dealing with this issue at the country level, rather than on a project-by-project basis. Furthermore, a more integrated accounting system which will facilitate improved and more timely reporting is currently being tested.

Proposals

49. The following proposals are offered:

(a) Continue efforts to achieve improvements in substantive accountability through the training and development of national monitoring capacity. Such efforts should be supplemented with attention to the performance of fulfilling current requirements for evaluation and reporting;

(b) Continue efforts to achieve improvements in auditing and financial reporting. Such efforts should be part of the comprehensive efforts necessary for the initial launching of national execution in a country, as suggested in paragraph 23 above;

(c) Utilize the TSS-2 facility to enhance agency technical monitoring of projects.

VIII. CONCLUSION

50. The concept of national execution is a reaffirmation of the fundamental principle that development is a national process to which the international community may contribute. Hence, sustained attention and action by both the recipient governments and the international community is critical.

UNITED
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Governing Council
of the
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Development Programme

Distr.
GENERAL

DP/1991/24
3 May 1991

ORIGINAL: ENGLISH

Thirty-eighth session
3-22 June 1991, New York
Item 5 (b) of the provisional agenda

PROGRAMME PLANNING

PREPARATIONS FOR THE FIFTH PROGRAMMING CYCLE, INCLUDING FUNDING STRATEGY

Preparations for the fifth programming cycle

Report of the Administrator

SUMMARY

The present document contains three sections. Section I responds to paragraph 39 of Governing Council decision 90/34 of 23 June 1990, which requests a report on the outcome of the Administrator's consultations with the United Nations agencies and his analysis of cost implications of introducing Special Drawing Rights as the unit of account. The Administrator recommends, on the basis of an analysis made by the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) that this question should not be pursued for the time being.

Section II has been prepared to assist the Governing Council in its deliberation of the net contributor issue. The Administrator recommends that net contributor provisions should be introduced more gradually in the fifth programming cycle than was the case in the fourth cycle. The possibility of establishing a threshold beyond which countries would no longer be entitled to an indicative planning figure is also discussed.

Section III responds to paragraph 35 of decision 90/34, dealing with weight coefficients of per capita gross national product and population used in the calculation of country indicative planning figures. Issues regarding possible modifications in the respective weight of these components are

presented, and it is argued that in achieving changes in the distribution of indicative planning figures, gross national product and population should be viewed broadly in the context of the underlying principles and objectives for distributing resources. Also pointed out is the fact that the system of allocating indicative planning figures resources, which has evolved over the 5 programming cycles, is highly constrained, complex and not readily responsive to changing priorities. A comprehensive review of the entire allocation system is proposed in the context of the sixth programming cycle.

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I. SPECIAL DRAWING RIGHTS

1. In paragraph 39 (d) of its decision 90/34 of 23 June 1990, the Governing Council called upon the Administrator to report to the Council at its thirty-eighth session (1991) on the outcome of his consultations with the United Nations agencies and his analysis of cost implications of introducing Special Drawing Rights (SDR) as the unit of account. In accordance with the request, the Administrator subsequently placed the question of Special Drawing Rights as the unit of account before the financial managers of the United Nations system in the framework of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) (CCAQ)(FB). The Office of the Director-General for Development and International Economic Cooperation was represented at these sessions, which took place in September 1990 and March 1991. CCAQ (FB) concluded, inter alia, that the introduction of SDR would create several administrative complications and would not have major benefits.

2. With respect to the costs of introducing SDR, the United Nations Development Programme (UNDP) estimates, which were based on a very broad and general analysis, are included in the report of the seventy-fourth session of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) (ACC/1991/6). In that the agencies and organizations of the United Nations system felt that the use of SDR as the unit of account was neither feasible nor practical, cost estimates were not prepared. As indicated in the conclusions of the report, it was felt that a changeover to SDR as the unit of account would lead to very substantial costs. Since executing agencies were not in a position to absorb such costs, they would have to be met by UNDP in the event that it is decided to change the unit of account. Based on all the above, and the analysis contained in the CCAQ (FB) report, the Administrator concurs with the recommendation of CCAQ (FB) that the question of SDR as a unit of account should not be pursued at this time.

II. NET CONTRIBUTOR ISSUE

A. Introduction and background

3. Following considerable debate on the net contributor issue for the fifth programming cycle, the Governing Council decided in paragraph 34 of its decision 90/34 of 23 June 1990 to review this issue at its thirty-eighth session (1991).

4. In accordance with paragraph 11 of Governing Council decision 85/16 of 29 June 1985, net contributor status in the fourth programming cycle applies to those countries with per capita gross national product (GNP) above $3,000 and island developing countries with a population in 1983 of less than 1 million and with per capita GNP above $4,200. The obligations of these countries for the fourth programming cycle are contained in decision 85/16, paragraphs 11-13, and decision 88/31 C, paragraphs 1-3. The issues associated

with the implementation of net contributor obligations as well as possible measures to deal with them have been documented extensively during the last few years. The relevant Governing Council documents include the note by the Administrator on the implementation of the fourth programming cycle 1987-1991 (DP/1987/22); the report of the Administrator on indicative planning figures for the fourth programming cycle 1987-1991 (DP/1988/9); the report of the Administrator on the fourth programming cycle: net contributor status (DP/1988/70); the report of the Administrator on net contributor status (DP/1989/5); the note by the Administrator on preparations for the fifth programming cycle (1992-1996) (DP/1990/8); and the report of the Administrator on preparations for the fifth programming cycle and net contributor status (DP/1990/43).

5. Pending a decision by the Governing Council on the subject and for the purposes of the present document, the term "net contributor status", used in relation to the fifth programming cycle, applies to countries with 1989 per capita GNP above $3,000 and island developing countries with a population of less than 2 million and with a per capita GNP above $4,200. In order to ensure that funds would be available for indicative planning figures (IPFs) for these countries, once a decision on the subject is adopted by the Council, a provisional IPF has been calculated for each of the 21 net contributor countries. These calculations have been made in accordance with the criteria established by decision 90/34, but without floor protection and on the assumption that the IPFs of these countries would be provided from the funds set aside for the IPFs of countries with per capita GNP of more than $750 (i.e., 13 per cent of all country IPF funds). However, these IPFs have not been issued formally and, therefore, countries have not been authorized to incur commitments against them. The total amount of funds set aside for net contributor countries in the fifth programming cycle on this basis is $11.6 million, or 0.3 per cent of total country IPFs. By comparison, total IPFs of $21.82 million, or 0.75 per cent of total country IPFs, were issued in the fourth programming cycle to 13 net contributor countries. They enjoyed an 80 per cent floor protection of their third programming cycle IPFs in the calculation of their fourth cycle IPFs, in accordance with decision 85/16.

6. Proposals on net contributor obligations for the fifth programming cycle are contained in paragraphs 41 to 45 and in annex III of document DP/1990/8 and paragraphs 22 and 23 of document DP/1990/43. The experience gained from the fourth programming cycle, as analysed in these documents, has demonstrated that relying on the single criterion of per capita GNP to implement the graduation of countries from recipient to donor status may result in anomalies. It needs to be recognized, however, that the current system of IPF distribution contains some elements of graduation. For instance, the weight coefficient of countries with per capita GNP of $375 is 20 times higher than that of countries with per capita GNP of $1,464. In other words, if the IPF distribution system were based solely on per capita GNP, the IPF of a country with per capita GNP of $375 would be twenty times higher than the IPF of a country with per capita GNP of $1,464. From $1,464 onwards, the per capita GNP weight coefficient remains unchanged. Above $3,000, however, graduation is abrupt. Whereas countries with a GNP per capita of $3,000 or below are under no formal obligation to make voluntary contributions, countries with

per capita GNP of $3,001 or above are required to make voluntary contributions equivalent at least to the IPF expenditure in each year. A small increase in per capita GNP can therefore completely stop the net flow of UNDP resources to a country, as demonstrated by the case of Suriname, whose per capita GNP increased by only 9 per cent, from $2,770 in 1983 to $3,020 in 1989, much less than the rate of inflation. There is, however, no comprehensive policy of graduation in UNDP, and the Council may wish to devote its attention in future sessions as to how such a policy would relate in particular to the sixth programming cycle. The recent emphasis by the Council on human development and the interest in the criteria used to measure human development provide the Council with an opportunity to consider this factor also as a component of a policy of graduation.

B. Options for consideration

1. Net contributor status

7. The Governing Council is well aware of the complexity of the net contributor obligations for the fourth programming cycle and of the difficulties in applying them. Moreover, the Council has not yet reached a decision on net contributor obligations for the fifth programming cycle. In his reports on this issue submitted to the Council at its special session in February 1990 (DP/1990/80) and at its thirty-seventh session (DP/1990/430), the Administrator proposed that consideration be given to the gradual enforcement of net contributor obligations and the use of multiple criteria for determining the net contributor status of a country. The Council may wish to consider those criteria during its current review of the net contributor issue. The Administrator is also submitting the new proposals below for the consideration of the Council. He believes that they will be simple to administer and should enjoy wide support from members of the Programme. They are:

(a) Barbardos, British Virgin Islands, Cyprus, Malta, Republic of Korea and Suriname, will graduate to the net contributor category in the fifth programming cycle. They would be issued IPFs calculated in accordance with decision 90/34 and would receive not less than 60 per cent of their country IPFs for the fourth programming cycle. They would be expected to make voluntary contributions equivalent to the IPF expenditure in each year and the cost of the field office, as applicable. The extent to which they fulfilled their net contributor country obligations in the fifth programming cycle would affect the level of their IPFs in the sixth cycle, as shortfalls in fifth cycle contributions would be deducted from sixth cycle IPFs, if any. This would ensure a smooth planning and use of resources during the fifth programming cycle.

(b) Aruba, Bahrain, Czechoslovakia, Libyan Arab Jamahiriya, Netherlands Antilles and Oman are net contributors in the fifth programming cycle and already had this status in the fourth cycle. They would be issued IPFs calculated in accordance with decision 90/34 and not receive less than 60 per cent of their country IPFs for the fourth programming cycle, but only

to the extent to which they fulfilled their net contributor obligations in the fourth cycle. In the event that they met these obligations only partially, they would be issued their fifth programming cycle IPFs, less any fourth cycle obligations that they did not meet. These countries would also be expected to make contributions equivalent to the IPF expenditure in each year of the fifth programming cycle and the cost of the field office, as applicable. The extent to which they fulfilled their net contributor country obligations in the fifth programming cycle would affect the level of their IPFs in the sixth cycle.

(c) Bahamas, Bermuda, Brunei Darussalam, Nauru, Qatar, Saudi Arabia, Singapore, Territory of Hong Kong and United Arab Emirates have a per capita GNP above $6,000 or are small island developing countries with a population of less than 2 million and a per capita GNP above $7,500. They would not be issued an IPF. The Governing Council may wish to consider a gradual introduction of this provision by according these countries 40 per cent of their IPF for the first two years of the fifth programming cycle, to allow for a transition.

8. Under the provisions of (a) and (b) above, the amount of IPFs issued to net contributor countries would be not more than $16.81 million, or about 0.5 per cent of total country IPFs, depending on the extent to which some fourth programming cycle net contributor countries fulfil their obligations. This amount exceeds the $11.55 million set aside for the IPFs of net contributor countries by some $5.26 million. The difference should be provided from the unallocated $100 million within the total amount of resources allocated to country IPFs. Table 1 shows the illustrative IPFs, the IPFs calculated by applying the proposed criteria, and the estimated voluntary contributions of the net contributor countries for the fifth programming cycle.

Table 1. Illustrative IPFs, proposed IPFs and estimated voluntary contributions
(by ascending order of 1989 per capita GNP)

	Population		Per capita GNP (dollars)		Fourth cycle IPF	Fifth cycle IPF options				1991 pledges	Estimated 1992-1996 pledges a/
	1983	1989	1983	1989		Illustrative	Change	Proposed IPF	Change		
Suriname	0.37	0.44	2 770	3 020	2.07	0.221	(1.847)	1.241	(0.827)		
Republic of Korea	39.96	42.38	2 020	4 400	10.64	1.792	(8.846)	6.382	(4.255)	1.000	6.336
Czechoslovakia		15.64		5 000	1.66	1.602	(0.054)	1.602	(0.054)	0.545	3.456
Malta	0.36	0.35	3 480	5 050	1.48	0.26	(1.218)	0.886	(0.591)		
Oman	1.13	1.49	6 240	5 220	1.89	0.676	(1.215)	1.135	(0.756)	0.100	0.634
Libyan Arab Jamahiriya	3.4	4.4	8 570	5 410	2.36	0.954	(1.409)	1.418	(0.946)		
Netherlands Antilles	0.19	0.2	6 320	6 360	0.64	0.186	(0.455)	0.384	(0.256)		
Barbados	0.25	0.25	4 020	6 370	1.48	0.216	(1.261)	0.886	(0.591)	0.045	0.282
Bahrain	0.4	0.49	10 620	6 500	1.18	0.362	(0.82)	0.709	(0.473)		
Saudi Arabia	10.44	14.43	12 410	6 500	4.73	1.578	(3.15)	0	(4.728)	3.500	22.176
Aruba	0.07	0.07	8 460	6 750	0.39	0.107	(0.285)	0.235	(0.156)		
Cyprus	0.66	0.69	3 830	7 050	2.95	0.406	(2.459)	1.773	(1.182)	0.262	1.657
British Virgin Islands	0.01	0.02	2 600	7 400	0.26	0.073	(0.185)	0.155	(0.103)	0.008	0.053
Singapore	2.5	2.68	6 790	9 100	3.55	0.691	(2.855)	0	(3.546)	0.220	1.394
Territory of Hong Kong	5.31	5.77	6 130	9 230	0.3	0.855	0.56	0	(0.295)	0.037	0.234
Nauru	0.01	0.01	5 880	10 230	0.05	0.068	0.017	0	(0.052)		
Bahamas	0.22	0.25	6 330	11 370	1.42	0.217	(1.201)	0	(1.418)		
Qatar	0.28	0.42	18 340	11 610	0.71	0.29	(0.419)	0	(0.709)		
United Arab Emirates	1.21	1.55	23 570	15 720	0.59	0.682	0.091	0	(0.591)		
Brunei Darussalam	0.21	0.25	20 880	16 000	0.5	0.216	(0.286)	0	(0.502)		
Bermuda	0.06	0.06	10 280	22 260	0.38	0.1	(0.278)	0	(0.378)		
Total					39.23	11.552		16.806		5.717	36.221

a/ Based on assumption of 8 per cent growth in contributions (see para. 2 of decision 90/34).

/...

2. Field offices in net contributor countries

9. In the fourth programming cycle, net contributor countries with a UNDP field office were required to pay the full cost of the field office, with the exception of the cost of the resident representative and the deputy resident representative. The Administrator proposes that in the fifth programming cycle, UNDP should meet the costs of the resident representative, the deputy resident representative and two general service staff in net contributor countries, including countries without an IPF, with programme activities exceeding $10 million in the course of the cycle. It is further proposed that these programme activities should include all activities financed from IPF, cost-sharing, government cash counterpart contributions and UNDP trust funds. With regard to net contributor countries not fully meeting the local cost of the office, the Administrator reiterates the statement he made in paragraph 23 of his report on preparations for the fifth programming cycle (DP/1990/43), namely, that "the Administrator negotiate agreements with the respective countries which would ensure that all local costs are covered by the host country. In the event that negotiations [on local office cost contributions] do not lead to an agreement by a date to be defined by the Council, the Administrator should close these offices and provide services to the countries on a reimbursable basis from a convenient location". It is also proposed that these provisions should apply pari passu to net contributor countries with programme activities of less than $10 million.

10. If these proposals are accepted, the Administrator would inform the Governing Council at its thirty-ninth session (1992) of the manner in which he intends to provide services to net contributor countries that have indicated either that they are not willing to meet their local office costs or that their programme activities in the fifth programming cycle would be below the minimum of $10 million. Two alternatives to the immediate closing of a field office would be considered. The first alternative would be that the Resident Representative would continue to reside in the country, but that the main programme and administrative services would be provided from another location. Another alternative is that a local staff presence be kept in the country, but that the UNDP Representative reside elsewhere, normally with responsibilities for more than one country. Reports on the situation of countries which do not, de facto, meet the criteria for the maintenance of field offices in net contributor countries would be provided periodically to the Council.

III. SUGGESTED PRINCIPLES FOR THE ALLOCATION OF RESOURCES AND THE DISTRIBUTION OF INDICATIVE PLANNING FIGURES FOR THE SIXTH PROGRAMMING CYCLE

A. Introduction and background

11. The Governing Council held lengthy debates at its thirty-seventh session (1990) on the principles for allocating resources in the fifth programming cycle. A consensus was reached on most issues; however, in

anticipation of the sixth programming cycle, in paragraph 35 of its decision 90/34, the Council invited the Administrator to provide proposals for revising the weight coefficients for per capita GNP and population, taking into account:

(a) Increased weight for least developed countries (LDCs) and lower-income countries, in per capita GNP weighting;

(b) Reduced weight for higher populations.

12. IPF resources are distributed among recipient countries on the basis of per capita GNP and the size of the respective population, with lower-income countries receiving a higher share of resources than upper-income countries, and countries with larger populations receiving a higher share than those with smaller populations. Seventy-five per cent of IPF resources are allocated according to these principles (i.e., the basic IPF) with the remaining 25 per cent allocated on the basis of 10 unique supplementary criteria (i.e., the supplementary IPF). The purpose of population and per capita GNP weights is to prioritize the allocation of resources in favour of lower-income countries according to the size of the population. The Governing Council first implemented the use of such weights and the methodology for applying them in the third programming cycle, by its decision 80/30 of 29 June 1980, in which it established, inter alia, per capita GNP, population groupings and the weight coefficients as criteria for the allocation of resources. These weight coefficients and the underlying methodology, were maintained in the fourth and fifth programming cycles, with adjustment to the per capita GNP groupings to account for inflation during the fourth cycle. Therefore, at the end of the fifth programming cycle, the methodology and weights will have been in effect for 15 years. Table 2 illustrates the present relationships between per capita GNP weights and population weights.

Table 2. Relationship between per capita GNP weights and population weights

A. Per capita GNP groupings and coefficients used in the calculation of fourth and fifth programming cycle country IPFs

Per capita GNP	Weight Coefficients
0 - 375	9.31 - 5.070
376 - 750	5.069 - 2.595
751 - 1464	2.594 - .26
Above 1464	.25

B. Population groupings and coefficients used in the calculation of country IPFs

Population (millions)	Weight coefficient	Increment per million
0 - .99	.05	.475
1 - 9.99	.525	.100
10 - 99.99	1.425	.02083
100 - 499.9	3.3	.0035
500 - 999.9	4.7	.0035
Over 1,000	6.45	.0035

B. The IPF metholology

Gross national product

13. Using the present methodology, IPF resources can be shifted in favour of one group of countries or to the detriment of others by adjusting the weight coefficients. For example, the resources distributed to the group of countries with per capita GNP below $375 would increase if the maximum GNP weight coefficient were increased, say 30 per cent, from 9.31 to 12.1. This 30 per cent relative increase in weight would increase the share of the $0-375 group from 63 per cent of resources to 66 per cent of resources using the methodology outlined in decision 90/34. GNP weight coefficients may also be adjusted selectively. For instance, if the maximum weight coefficient were increased 30 per cent for LDCs only, their share of resources would increase from 50.8 per cent to 53.7 per cent. Each adjustment yields a new distribution of IPFs, with the possible variations being almost limitless.

14. In the context of GNP weight, the presumption of increased weight for LDCs and low-income countries portends a shift in resources from middle- and upper-income countries to low-income countries and LDCs. The magnitude of the desired shift in resources would then determine the necessary adjustment to weight coefficients. On this subject, it may be helpful for the Governing Council to review the distribution of IPFs by GNP groups which appear at the end of the table in the annex. Included in the information is a column comparing per capita IPFs. The table also illustrates the portion of IPF derived from basic data, supplementary data, the floor supplement and the LDC supplement Information on IPF distribution for specific groups of recipients is provide at the end of the table.

Population

15. The population of a country features most prominently in the IPF calculation, which in effect factors it twice under the present methodology. It is used both in nominal terms and as a modification of GNP, where it discounts a country's economic output in order to ensure more comparability between countries. The issue of decreased weight for countries with higher

populations assumes that IPF resources will be shifted from countries with larger populations to those with smaller populations. It may be deduced from table 3 that the distribution of country IPFs to various population groups according to decision 90/34 could be altered to yield numerous new distribution patterns. This could be accomplished in a variety of ways. One approach would be to alter the population increment weight added for countries with higher populations (see table 2). That is, the extra increment added to the weight coefficient to reflect the differences between populations in any respective population grouping could be reduced or eliminated. However, if the incremental weight for countries with populations above 100 million were reduced from .0035 to zero, the total IPFs for the six affected countries would be reduced only by $9 million, if the floor principle were operational.

Table 3. Distribution of country IPFs by population group

Population groups 1989 (millions)	Number of countries	Total population (millions)	Percentage of total population	Fifth cycle IPFs ($ millions)	Percentage of total IPF
0 - 1	47	11.38	.28	158.68	4.58
1 - 10	53	246.83	6.09	1 107.35	31.95
10 - 100	43	1 198.68	29.56	1 400.62	40.41
100 - 500	5	660.71	16.29	466.37	13.46
500 - 1 000	1	832.54	20.53	156.12	4.50
+ 1 000	1	1 105.07	27.25	176.66	5.10
Totals	150	4 055.21	100	3 465.80	100

16. In conclusion, while it is possible to effect changes in the distribution of country IPFs by modifying the weight coefficients for per capita GNP and population, it can be demonstrated that achieving a specific IPF distribution under the present methodology is somewhat problematic, and has required coercive adjustments which place the basic methodology in question.

C. The IPF system

17. Per capita GNP and population weight coefficients are key elements of a resource distribution system which has become increasingly complex and constrained. These complexities, which are not exclusively related to these two elements, are demonstrated by questions which are often raised, such as: why do apparently similar countries, in terms of population and GNP, have different IPFs; or, why do not all countries with declining per capita GNPs receive IPF increases. Other questions relate to the general lack of transparency in the present system: the financial benefit of supplementary

criteria is not readily apparent and many countries seek to know what portion of their IPF is derived from the application of a particular criterion. These and other questions sometimes result from the interdependency or conflict of factors such as resource levels, floor amounts, supplementary criteria, and the supplementary cap. The interaction between all these factors makes it difficult to isolate population or per capita GNP weight and to draw meaningful conclusions. The "floor" principle illustrates this point.

Floor

18. The "floor" principle or methodology applies the concept that a country's IPF should not be less in the current cycle than a designated percentage of the previous cycle. This is given effect by calculating all country IPFs, determining the total amount necessary to supplement individual IPFs, deducting this amount from resources available for distribution and recalculating the IPFs, adding the supplement to arrive at the final IPF. Numerous iterations of this process are necessary before the floor requirements and available resources are in balance. For the fifth programming cycle, $209.4 million has been set aside and added as a floor supplement to the IPFs of 68 countries. In many instances, the floor is the overriding distribution principle. In fact, the fifth programming cycle IPFs for 31 countries are derived directly from the amounts established in the first cycle (1972-1976).

19. Under most scenarios that do not include a significant growth in resources, modification of population and per capita GNP coefficients have limited impact on the distribution of resources when the floor supplement is in effect. This occurs because IPFs, which might otherwise decline as a result of increases in per capita GNP, are restored by a floor supplement. However, if the resources available for IPF distribution increase over a certain base, the impact of the floor is reduced. For instance, while an assumed 8 per cent annual growth in voluntary contributions for the fifth cycle results in $209.4 million being set aside for floor supplements, a 10 per cent annual growth rate would result in only $140 million needed for floor supplements, and so on. Therefore, unless resources increase significantly, revision of the weight coefficients or other parameters, without modifying the floor values, will have limited impact on IPF calculations.

20. Another example of the constraints underlying the system of resource allocation is the operation of the supplementary cap. This cap limits the amount of supplementary IPF a recipient may receive by restricting this amount to no more that 50 per cent of the basic IPF, except for LDCs, which may receive up to 100 per cent of the basic IPF. A basic contradiction occurs: supplementary resources are applied and then taken away by the supplementary cap.

System limitations

21. The complexities multiply with each step in the IPF calculation. It can also be argued that the system is not readily responsive to changing and

sometimes differing priorities established by the Governing Council. In paragraph 18 of its decision 90/34, the Council decided that 55 per cent of IPF resources should be allocated to LDCs. In order to accomplish this objective, the distribution ratio was modified so that countries with per capita GNP below $750 would receive 87 per cent of resources, compared to 80 per cent in the fourth programming cycle. Further, the number of points provided for LDC status under the supplementary criteria were increased from three to seven. Despite these significant modifications in the IPF methodology, the inherent constraints in the system limited the distribution of IPFs to LDCs to only 51 per cent of the country IPFs. Consequently, and to achieve the target of allocating 55 per cent of country IPFs to LDCs, it was necessary to supplement the IPFs for the LDC group using $138 million from the regional IPF programmes, in accordance with the decision. In other words, the regional programme was reduced by 26 per cent because the current methodology for calculating IPFs would simply not yield the desired distribution for LDCs.

D. New dimensions in development

22. The Governing Council, in its decision 90/34, established several new directions for the Programme. In the area of resource allocation, it significantly altered the previous distribution patterns for country IPFs. It also established six areas of focus in the Programme which should receive priority in order to build and strengthen national capacities. Many of these priorities, including the increased focus on human development concerns - the people in development - which is a central theme of the decision, will result in the establishment of new approaches and systems for addressing these emerging challenges. Several other priorities designated by the Council such as national execution, capacity-building, sustainable development, and private sector development further underscore the changing emphasis and dynamic nature of technical cooperation in the 1990s.

23. While the dynamics of global development are transforming operational approaches throughout the United Nations system, the traditional associations and understanding are also undergoing review and reprioritization. For example, the United Nations Committee for Development Planning has been reviewing issues relating to the designation of "least developed" and the adequacy of the criteria used for such designation. While the outcome of this review is not yet known, its impact could be significant for UNDP. For instance, how would the allocation of UNDP resources be affected should there be a significant increase in the total number of LDCs?

24. Changes in the pattern of resource allocation that benefit one country or a group of countries tend to create corresponding disadvantages for others, particularly in a no-growth resource situation. Such is the case with respect to the distribution of resources in the fifth programming cycle. Given its emphasis on low-income countries, particularly LDCs, some countries received static or reduced IPFs. This, combined with the 26 per cent reduction in the regional IPF programme, places UNDP technical activities in Latin America, in the Middle East and in Europe at the margins of the Programme. This may have

a profound effect on the UNDP programme of activities in the 1990s. The extent to which this shift occurs as a result of a resource distribution decision versus a policy decision merits further consideration.

25. It is recognized that UNDP resource allocations are viewed independently from overall Official Development Assistance (ODA) flows, as well as other, sometimes dominant, global economic events such as changes in monetary policies, international finance and investment, debt, trade quotas, barriers and other constraints, which often have a profound impact on development priorities and obstacles. It is sometimes suggested that the implications of global economic policy are fundamental elements of a comprehensive approach to dealing with development challenges.

E. Options for IPF allocations

26. UNDP must ensure that its resources are used in the most appropriate manner in the rapidly changing development environment. In consequence, the Administrator proposes that a comprehensive review of these subjects be undertaken by the Governing Council, beginning at the high-level segment of the thirty-ninth session (1992). The Administrator would prepare for this session a concepts paper, to address the key issues associated with resource allocation and provide various options for their prioritization, particularly those covered by decision 90/34. To facilitate the dialogue on resource utilization in the sixth programming cycle, the paper would highlight several issues for the purpose of obtaining further guidance from the Council and moving the discussion forward.

27. Questions about basic data and the relevance of such indicators have been discussed since UNDP began using per capita GNP and population as the main basis for country IPF distribution. The increased recognition and acceptance of the importance of human development, recent improvements in data reporting and analysis, new information on human conditions and the increasing utilization of composite multiple indexes offer the possibility of revising the basis for determining how IPF resources will be established.

28. During the debate on the fifth programming cycle, the principle of using supplementary criteria in the calculation of country IPFs was challenged as being ineffectual, with some delegations proposing their elimination. One of the problems suggested by some delegations was the lack of linkage in the application of supplementary resources. There are, however, various options available for applying supplementary resources to country IPFs. Numerous possibilities also exist for establishing indicators for need, performance or priority which can be explored in the proposed review.

F. Graduation

29. In connection with a review of the principles for allocating resources in the sixth programming cycle, the Administrator proposes to develop a policy

framework on graduation. The following observations on the subject may also have relevance to the current discussions on the fifth programming cycle.

Universality

30. The principle of universality, by which all countries are eligible to participate in the Programme, does not prescribe equal participation for all countries. The application of this principle has consistently assumed differences between countries and effected resource allocations which favoured those with low incomes. This principle does not specifically require a net flow of resources to all countries, but has traditionally mandated that countries in a position to do so become net contributors to the Programme. It follows, therefore, that the principal of universality may encompass new arrangements and financial responsibilities for certain countries.

Criteria

31. The use of per capita GNP as the single criterion to determine graduation or net contributor status has proven to be operationally problematic and conceptually flawed. It is problematic because estimates of economic output such as per capita GNP are imprecise and subject to frequent and often significant revisions. Since the GNP estimate is a moving target, programme management by necessity must be equally uncertain in order to reflect changes in status. During the fourth programming cycle, for example, three countries moved out of the group of net contributor countries as a result of revisions to 1983 per capita GNP, while one country would have been subject to the net contributor obligations if its GNP estimate had not originally been understated. This is conceptually flawed because: (a) it assumes an exactitude that belies the nature of the estimate; (b) it distorts economic output with the consequences of monetary policy; and (c) it captures economic events at a single point in time without due reference to the nature of single commodity economies which dominate developing countries. In consequence, it becomes contentious and somewhat arbitrary that a country with per capita GNP of $3,010 must graduate while another with per capita GNP of $2,990 may remain a net recipient. Alternatively, the policy of graduation could encompass multiple criteria, including the human dimension.

Other questions relating to graduation

32. There are several other questions to be considered:

(a) Technical cooperation among developing countries (TCDC). What is the appropriate role for UNDP to play in promoting TCDC activities with higher-income countries, which, by virtue of their economic performance, possess valuable technical expertise that can make a significant contribution to the UNDP programme of technical cooperation?

(b) International Development Strategy (IDS). How could UNDP assist higher-income countries to achieve the IDS such as the advocacy for environmentally sustainable development and others which are of universal consequence and not necessarily unique to low-income countries?

(c) Core contributions. How can the policy of graduation avoid the discouragement of voluntary contribution to core resources? For example, some current net contributor countries at present make annual core contributions which significantly exceed their illustrative IPF for the fifth programming cycle. What steps can be taken to insure that such voluntary contributions continue?

(d) Human development. The human development index (HDI) has enhanced the need to recognize the usefulness of distinguishing between economic and human development, including the possibility that higher-income countries may sometimes have relatively low indicators of human development. It seems apparent that some higher-income countries require continued technical cooperation, particularly in terms of their human development.

G. Conclusions

33. The Governing Council, in paragraph 35 of its decision 90/34, has provided an opportunity to evaluate briefly the effectiveness and responsiveness of the present system of allocation. Several constraints in the methodology have been identified. The significance of these are highlighted in view of the changing environment of technical cooperation and world development. The Administrator believes that UNDP would benefit from a thorough review of the objectives and principles underlying the allocation of resources in order to establish a more responsive and focused programme of technical cooperation in the sixth programming cycle. He seeks the concurrence of the Council in preparing a comprehensive conceptual paper on sixth programming cycle resource utilization, to be submitted at the thirty-ninth session (1992).

Annex

FIFTH CYCLE IPFs CALCULATED IN ACCORDANCE WITH GOVERNING COUNCIL DECISION 90/34

COUNTRIES AND TERRITORIES		Population 1983	Population 1989	Per Capita GNP 1983	Per Capita GNP 1989	Data quality	Fourth cycle IPFs (dec.90/4)	Fifth cycle IPFs a/ (in millions of dollars) Basic amt.	Supplementary amt.	Floor amt.	LDC supplement	Final IPF 2+3+4+5	Status	Change 6-1	IPF per capita
							(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
ANGOLA	LDC	8.21	9.69	810	620		24.52	21.242	7.305	0.000	2.333	30.880		6.355	$3.19
BENIN	LDC	3.81	4.59	280	380		29.19	19.637	10.411	0.000	2.456	32.504		3.315	$7.08
BOTSWANA	LDC	1.00	1.22	920	950	b/	6.48	3.619	3.085	0.000	0.548	7.251		0.768	$5.94
BURKINA FASO	LDC	6.50	8.78	170	310		46.90	33.369	13.826	0.000	3.857	51.053		4.153	$5.81
BURUNDI	LDC	4.47	5.30	240	210		33.62	29.234	15.955	0.000	3.693	48.882		15.260	$9.22
CAMEROON		9.56	11.55	850	1010		16.82	8.660	3.492	2.985	0.000	15.137		-1.682	$1.31
CAPE VERDE	LDC	0.31	0.37	430	760		6.67	1.974	1.821	2.878	0.545	7.219		0.545	$19.51
CENTRAL AFRICAN REPUBLIC	LDC	2.47	2.95	270	390		24.82	15.784	9.101	0.000	2.034	26.919		2.094	$9.13
CHAD	LDC	4.75	5.54	130	190		42.25	30.947	11.882	0.000	3.501	46.330		4.077	$8.36
COMOROS	LDC	0.38	0.46	320	460		7.86	5.340	5.340	0.000	0.873	11.553		3.691	$25.12
CONGO		1.77	2.21	1210	930		6.50	4.418	1.641	0.000	0.000	6.060		-0.441	$2.74
CÔTE D'IVOIRE		9.50	11.71	750	790		18.01	12.282	3.993	0.000	0.000	16.275		-1.733	$1.39
EQUATORIAL GUINEA	LDC	0.36	0.34	120	430		10.38	4.391	4.391	1.601	0.849	11.231		0.849	$33.03
ETHIOPIA	LDC	40.90	48.86	120	120		91.06	78.461	30.422	0.000	8.899	117.782		26.721	$2.41
GABON		0.70	1.11	3930	2770		2.84	0.457	0.229	1.583	0.000	2.269		-0.567	$2.04
GAMBIA	LDC	0.70	0.85	350	230		12.79	13.436	10.377	0.000	1.946	25.759		12.973	$30.31
GHANA		12.80	14.43	340	390		35.81	33.263	8.777	0.000	0.000	42.040		6.229	$2.91
GUINEA	LDC	5.83	5.55	290	430		33.10	20.345	10.652	2.098	2.705	35.801		2.705	$6.45
GUINEA-BISSAU	LDC	0.87	0.96	190	180		19.14	16.248	9.258	0.000	2.085	27.592		8.451	$28.74
KENYA		18.90	23.28	340	380		40.77	37.800	8.295	0.000	0.000	46.095		5.327	$1.98
LESOTHO	LDC	1.50	1.72	560	470		14.16	11.700	6.426	0.000	1.481	19.607		5.449	$11.40
LIBERIA	LDC	2.09	2.48	500	500	b/	13.42	12.602	7.350	0.000	1.545	21.497		8.073	$8.67
MADAGASCAR		9.50	11.17	300	230		40.66	42.917	12.220	0.000	0.000	55.137		14.479	$4.94
MALAWI	LDC	6.60	8.23	190	180		45.89	40.075	17.364	0.000	4.695	62.134		16.244	$7.55
MALI	LDC	7.28	8.21	180	260		50.28	35.025	18.254	0.000	4.355	57.634		7.355	$7.02
MAURITANIA	LDC	1.64	1.95	480	490		15.56	11.790	9.677	0.000	1.755	23.222		7.661	$11.91
MAURITIUS		0.99	1.06	1140	1950		4.34	0.453	0.227	3.231	0.000	3.910		-0.434	$3.69
MOZAMBIQUE	LDC	13.35	15.36	160	80		66.01	57.030	28.914	0.000	7.024	92.969		26.960	$6.05
NAMIBIA		1.09	1.82	1710	1200	b/	13.18	2.314	0.202	9.345	0.000	11.862		-1.318	$6.52
NIGER	LDC	6.06	7.48	320	290		37.33	31.213	17.937	0.000	4.017	53.167		15.841	$7.11
NIGERIA		93.64	113.67	830	250		38.74	95.783	24.210	0.000	0.000	119.993		81.252	$1.06
RWANDA	LDC	5.72	6.89	260	310		36.85	28.529	11.197	0.000	3.247	42.973		6.127	$6.24
SAO TOME AND PRINCIPE	LDC	0.10	0.12	340	520		3.29	1.941	1.941	0.000	0.317	4.200		0.912	$35.00
SENEGAL	LDC	6.20	7.21	430	650		29.01	16.464	10.109	2.437	2.371	31.381		2.371	$4.35
SEYCHELLES		0.07	0.07	2400	3800	c/	1.29	0.071	0.036	0.925	0.000	1.031		-0.258	$14.74
SIERRA LEONE	LDC	3.60	4.04	390	200		23.22	25.791	12.505	0.000	3.130	41.426		18.203	$10.25
SWAZILAND		0.71	0.76	890	790	c/	5.06	3.456	0.541	0.555	0.000	4.552		-0.506	$5.99
TOGO	LDC	2.85	3.51	270	390		24.78	17.012	9.518	0.000	2.168	28.699		3.922	$8.18
UNITED REPUBLIC OF TANZANIA	LDC	20.80	25.63	310	120		57.51	61.468	30.802	0.000	7.541	99.811		42.299	$3.89
UGANDA	LDC	13.88	16.77	310	250		50.43	44.805	23.716	0.000	5.600	74.122		23.689	$4.42
ZAIRE		29.70	34.44	290	260		56.93	54.370	12.966	0.000	0.000	67.335		10.403	$1.96
ZAMBIA		6.26	7.84	570	420		20.71	25.450	6.194	0.000	0.000	31.645		10.933	$4.04
ZIMBABWE		7.90	9.57	850	640		18.77	20.256	3.541	0.000	0.000	23.796		5.024	$2.49
Africa subtotals		375.26	449.75				1176.97	1031.43	436.10	27.64	85.57	1580.74		403.769	$3.51
AFGHANISTAN	LDC	17.22	19.90	220	200	b/	60.44	50.750	13.997	0.000	5.292	70.039		9.603	$3.52
BANGLADESH	LDC	95.50	111.59	150	180		135.67	107.270	43.574	0.000	12.329	163.173		27.506	$1.46
BHUTAN	LDC	1.19	1.40	150	150	b/	25.17	18.991	6.794	0.000	2.107	27.892		2.725	$19.92
BRUNEI DARUSSALAM		0.21	0.25	20880	16000	c/	0.50	0.144	0.072	0.000	0.000	0.216	ccc/	-0.286	$0.86

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Annex (continued)

COUNTRIES AND TERRITORIES		Population 1983	Population 1989	Per Capita GNP 1983	Per Capita GNP 1989	Data quality	Fourth cycle IPFs (dec.90/4)	Fifth cycle IPFs a/ (in millions of dollars) Basic amt.	Supplementary amt.	Floor amt.	LDC supplement	Final IPF 2+3+4+5	Status	Change 6-1	IPF per capita
							(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
CAMBODIA	LDC	6.78	8.05	80	150	b/	14.03	41.343	0.000	0.000	0.000	41.343		27.318	$5.14
CHINA		1019.10	1105.07	300	360		163.33	157.551	19.109	0.000	0.000	176.660		13.329	$0.16
COOK ISLANDS		0.02	0.02	1160	1550	b/	1.20	0.051	0.025	1.007	0.000	1.083		-0.120	$54.15
DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA		19.19	22.42	760	700	b/	17.33	21.742	0.000	0.000	0.000	21.742		4.408	$0.97
FIJI		0.67	0.74	1720	1640		2.95	0.343	0.171	2.145	0.000	2.659		-0.295	$3.59
INDIA		733.25	832.54	260	350		156.12	138.441	8.471	9.208	0.000	156.120		0.000	$0.19
INDONESIA		155.70	178.21	590	490		65.69	67.960	13.425	0.000	0.000	81.384		15.698	$0.46
IRAN, ISLAMIC REPUBLIC OF		42.51	50.20	3610	3000	b/	11.82	1.931	0.359	7.166	0.000	9.455		-2.364	$0.19
KIRIBATI	LDC	0.06	0.07	460	700		2.10	1.075	1.075	0.000	0.176	2.326		0.224	$33.22
LAO PEOPLE'S DEMOCRATIC REPUBLIC	LDC	3.66	4.06	90	170		37.97	27.100	11.871	0.000	3.185	42.156		4.187	$10.38
MALAYSIA		14.86	17.34	1910	2130		8.86	1.346	0.145	5.600	0.000	7.091		-1.773	$0.41
MALDIVES	LDC	0.17	0.21	230	420		5.14	3.152	3.152	0.000	0.515	6.820		1.678	$32.48
MONGOLIA		1.81	2.16	790	650	b/	7.84	9.209	0.572	0.000	0.000	9.781		1.944	$4.53
MYANMAR	LDC	35.50	40.80	180	240	c/	83.40	60.162	26.213	0.000	7.060	93.435		10.034	$2.29
NAURU		0.01	0.01	5880	10230	b/	0.05	0.046	0.023	0.000	0.000	0.068	ncc/	0.017	$9.75
NEPAL	LDC	15.70	18.43	160	170		68.37	52.199	19.697	0.000	5.876	77.772		9.404	$4.22
NIUE		0.00	0.00	1030	1800		0.86	0.044	0.022	0.707	0.000	0.774		-0.086	$193.40
PAKISTAN		89.70	109.95	390	370		73.30	75.396	12.241	0.000	0.000	87.638		14.339	$0.80
PAPUA NEW GUINEA		3.20	3.81	720	900		11.65	5.784	0.820	3.878	0.000	10.481		-1.165	$2.75
PHILIPPINES		52.10	61.22	750	700		29.96	32.180	7.339	0.000	0.000	39.519		9.557	$0.65
REPUBLIC OF KOREA		39.96	42.38	2020	4400		10.64	1.792	0.000	0.000	0.000	1.792	ncc/	-8.846	$0.04
SAMOA	LDC	0.16	0.16	290	720		4.50	1.554	2.840	0.109	0.368	4.871		0.368	$30.44
SINGAPORE		2.50	2.68	6790	9100	c/	3.55	0.591	0.099	0.000	0.000	0.691	ncc/	-2.855	$0.26
SOLOMON ISLANDS		0.25	0.31	580	570		3.74	3.292	0.404	0.048	0.000	3.745		0.000	$12.08
SRI LANKA		15.42	16.78	330	430		45.08	32.516	8.629	3.933	0.000	45.077		0.000	$2.69
TERRITORY OF HONGKONG		5.31	5.77	6130	9230	c/	0.30	0.855	0.000	0.000	0.000	0.855	ncc/	0.560	$0.15
THAILAND		49.20	55.20	810	1170		29.02	9.819	1.303	14.997	0.000	26.118		-2.902	$0.47
TOKELAU		0.00	0.00	540	830	b/	1.20	0.409	0.089	0.699	0.000	1.197		0.000	$399.09
TONGA		0.10	0.10	770	910		1.66	0.689	0.316	0.652	0.000	1.656		0.000	$16.56
TRUST TERRITORY OF PACIFIC ISLANDS		0.15	0.17	1040	1070		3.03	0.689	0.105	2.240	0.000	3.034		0.000	$17.85
TUVALU	LDC	0.01	0.01	600	650	b/	1.13	0.766	0.766	0.000	0.125	1.657		0.529	$236.77
VANUATU	LDC	0.13	0.15	700	860		1.91	0.924	1.193	0.000	0.173	2.291		0.385	$15.27
VIET NAM		58.54	68.43	110	250	b/	83.55	75.597	17.178	0.000	0.000	92.774		9.221	$1.36
Asia/Pacific subtotals		2479.82	2780.59				1173.05	1003.70	222.09	52.39	37.21	1315.39		142.341	$0.47
ALBANIA		2.92	3.20	910	900	b/	6.65	5.346	0.000	0.637	0.000	5.983		-0.665	$1.87
ALGERIA		20.57	24.45	2410	2170		11.82	1.473	0.736	7.246	0.000	9.455		-2.364	$0.39
BAHRAIN		0.40	0.49	10620	6500	c/	1.18	0.241	0.121	0.000	0.000	0.362	ncc/	-0.820	$0.74
BULGARIA		8.95	9.00	2350	2500	b/	3.55	1.131	0.000	1.706	0.000	2.837		-0.709	$0.32
CYPRUS		0.66	0.69	3830	7050		2.95	0.322	0.083	0.000	0.000	0.406	ncc/	-2.549	$0.59
CZECHOSLOVAKIA		15.120	15.64		5000	b/	1.66	1.316	0.286	0.000	0.000	1.602	ncc/	-0.054	$0.10
DJIBOUTI	LDC	0.40	0.41	770	1300	b/	3.75	0.659	0.659	2.054	0.276	3.647		-0.099	$8.90
EGYPT		45.20	53.08	590	680		39.43	31.340	7.196	0.895	0.000	39.432		0.000	$0.74
HUNGARY		10.70	10.59	2160	2560		2.07	1.226	0.550	0.000	0.000	1.776		-0.292	$0.17
IRAQ		14.66	18.27	2850	2500	b/	8.86	1.363	0.000	5.729	0.000	7.091		-1.773	$0.39
JORDAN		3.24	4.04	1680	1730		8.86	0.707	0.213	6.171	0.000	7.091		-1.773	$1.76
LEBANON		2.62	2.89	810	1000	d/	8.56	4.323	0.000	3.383	0.000	7.706		-0.856	$2.67
LIBYAN ARAB JAMAHIRIYA		3.40	4.40	8570	5410	b/	2.36	0.738	0.216	0.000	0.000	0.954	ncc/	-1.409	$0.22
MALTA		0.36	0.35	3480	5050	c/	1.48	0.185	0.075	0.000	0.000	0.260	ncc/	-1.218	$0.74

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Annex (continued)

COUNTRIES AND TERRITORIES		Population 1983	Population 1989	Per Capita GNP 1983	Per Capita GNP 1989	Data quality	Fourth cycle IPFs (dec.90/4) (1)	Fifth cycle IPFs a/ (in millions of dollars) Basic amt. (2)	Supplementary amt. (3)	Floor amt. (4)	LDC supplement (5)	Final IPF 2+3+4+5 (6)	Status (7)	Change 6-1 (8)	IPF per capita (9)
MOROCCO		20.80	24.57	710	900		22.39	12.404	4.835	2.908	0.000	20.147		-2.239	$0.82
OMAN		1.13	1.49	6240	5220		1.89	0.490	0.187	0.000	0.000	0.676	ncc/	-1.215	$0.45
POLAND		36.56	38.06	1830	1760		4.43	1.715	0.666	1.165	0.000	3.546		-0.886	$0.09
QATAR		0.28	0.42	18340	11610	c/	0.71	0.213	0.077	0.000	0.000	0.290	ncc/	-0.419	$0.69
REPUBLIC OF YEMEN	LDC		11.17		640	e/	42.59	21.243	11.871	6.258	3.218	42.590		0.000	$3.81
ROMANIA		22.60	23.15	2350	2400	b/	4.43	1.450	0.301	1.795	0.000	3.546		-0.886	$0.15
SAUDI ARABIA		10.44	14.43	12410	6500	c/	4.73	1.295	0.283	0.000	0.000	1.578	ncc/	-3.150	$0.11
SOMALIA	LDC	5.10	6.09	250	170		35.30	33.720	19.003	0.000	4.309	57.032		21.735	$9.36
SUDAN	LDC	20.81	24.42	390	540		46.74	30.304	16.380	0.061	3.821	50.565		3.821	$2.07
SYRIAN ARAB REPUBLIC		9.60	12.08	1640	1030		8.86	8.397	3.397	0.000	0.000	11.794		2.929	$0.98
TUNISIA		6.90	7.99	1250	1260		8.86	3.844	0.882	3.253	0.000	7.978		-0.886	$1.00
TURKEY		47.30	54.90	1180	1360		14.69	4.766	1.396	7.059	0.000	13.222		-1.469	$0.24
UNITED ARAB EMIRATES		1.21	1.55	23570	15720	c/	0.59	0.495	0.187	0.000	0.000	0.682	ncc/	0.091	$0.44
YUGOSLAVIA		22.78	23.71	2640	2490	b/	4.43	1.460	0.454	1.632	0.000	3.546		-0.886	$0.15
Arab States/Europe subtotals			391.53				303.83	172.16	70.05	51.95	11.62	305.79		1.957	$0.78
ANGUILLA		0.01	0.01	630	850	c/	1.07	0.416	0.089	0.561	0.000	1.066		0.000	$133.31
ANTIGUA		0.08	0.08	1700	2860	b/	1.29	0.075	0.038	1.048	0.000	1.160		-0.129	$14.51
ARGENTINA		29.60	31.88	1960	2160		11.82	1.605	0.800	7.050	0.000	9.455		-2.364	$0.30
ARUBA		0.07	0.07	8460	6750	b/	0.39	0.071	0.036	0.000	0.000	0.107	ncc/	-0.285	$1.52
BAHAMAS		0.22	0.25	6330	11370		1.42	0.145	0.072	0.000	0.000	0.217	ncc/	-1.201	$0.86
BARBADOS		0.25	0.25	4020	6370		1.48	0.144	0.072	0.000	0.000	0.216	ncc/	-1.261	$0.86
BELIZE		0.15	0.18	1110	1600		1.29	0.116	0.000	0.916	0.000	1.031		-0.258	$5.73
BERMUDA		0.06	0.06	10280	22260	b/	0.38	0.067	0.033	0.000	0.000	0.100	ncc/	-0.278	$1.67
BOLIVIA		6.03	7.11	470	600		23.55	17.971	5.743	0.000	0.000	23.713		0.159	$3.34
BRAZIL		129.66	147.29	1810	2550		17.73	2.957	1.204	10.021	0.000	14.183		-3.546	$0.10
BRITISH VIRGIN ISLANDS		0.01	0.02	2600	7400	b/	0.26	0.049	0.024	0.000	0.000	0.073	ncc/	-0.185	$4.87
CAYMAN ISLANDS		0.02	0.02	2860	3480	b/	0.48	0.052	0.026	0.308	0.000	0.385		-0.096	$17.50
CHILE		11.68	12.98	1920	1770		11.82	1.269	0.634	7.552	0.000	9.455		-2.364	$0.73
COLOMBIA		27.52	32.34	1440	1190		13.00	7.420	2.539	1.743	0.000	11.701		-1.300	$0.36
COSTA RICA		2.38	2.74	1020	1790		6.03	0.596	0.298	3.926	0.000	4.821		-1.205	$1.76
CUBA		9.88	10.51	1910	1500	b/	12.11	1.225	0.137	9.541	0.000	10.903		-1.211	$1.04
DOMINICA		0.08	0.08	1010	1630	c/	1.36	0.075	0.038	1.111	0.000	1.223		-0.136	$15.29
DOMINICAN REPUBLIC		6.00	7.00	1130	750		8.36	12.892	2.706	0.000	0.000	15.598		7.236	$2.23
ECUADOR		8.19	10.33	1310	1040		8.86	8.028	3.265	0.000	0.000	11.292		2.428	$1.09
EL SALVADOR		5.23	5.21	760	1090		10.77	4.773	0.350	4.569	0.000	9.692		-1.077	$1.86
GRENADA		0.09	0.09	1050	1450	c/	1.29	0.094	0.047	1.149	0.000	1.289		0.000	$14.33
GUATEMALA		7.93	8.95	1170	920		7.68	9.176	1.226	0.000	0.000	10.402		2.719	$1.16
GUYANA		0.80	0.80	530	340		10.09	10.367	3.629	0.000	0.000	13.996		3.910	$17.49
HAITI	LDC	5.30	6.37	270	400		34.83	22.973	7.697	4.161	2.847	37.678		2.847	$5.91
HONDURAS		4.10	4.88	670	900		11.56	6.551	1.823	2.033	0.000	10.408		-1.156	$2.13
JAMAICA		2.26	2.43	1390	1260		4.43	2.098	0.947	0.944	0.000	3.989		-0.443	$1.64
MEXICO		75.00	85.44	2190	1990		11.82	2.557	1.279	5.620	0.000	9.455		-2.364	$0.11
MONTSERRAT		0.01	0.01	2360	3330	b/	0.60	0.048	0.024	0.409	0.000	0.481		-0.120	$34.38
NETHERLAND ANTILLES		0.19	0.20	6320	6360	b/	0.64	0.124	0.062	0.000	0.000	0.186	ncc/	-0.455	$0.93
NICARAGUA	LDC	3.00	3.74	820	800	b/	10.40	6.629	5.986	0.000	1.031	13.646		3.242	$3.65
PANAMA		1.96	2.37	1980	1780		4.43	0.565	0.196	2.785	0.000	3.546		-0.886	$1.50
PARAGUAY		3.21	4.16	1180	1280		5.76	2.452	0.632	2.101	0.000	5.185		-0.576	$1.25
PERU		17.88	21.14	1190	1090		14.77	8.361	3.384	1.551	0.000	13.297		-1.477	$0.63

.../...

Annex (continued)

COUNTRIES AND TERRITORIES	Population 1983	Population 1989	Per Capita GNP 1983	Per Capita GNP 1989	Data quality	Fourth cycle IPFs (dec.90/4) (1)	Fifth cycle IPFs a/ (in millions of dollars) Basic amt. (2)	Supplementary amt. (3)	Floor amt. (4)	LDC supplement (5)	Final IPF 2+3+4+5 (6)	Status (7)	Change 6-1 (8)	IPF per capita (9)
SAINT KITTS AND NEVIS	0.05	0.05	1360	2530	c/	1.29	0.063	0.031	1.066	0.000	1.160		-0.129	$23.21
SAINT LUCIA	0.13	0.15	1080	1540	c/	1.29	0.103	0.052	1.005	0.000	1.160		-0.129	$7.74
SAINT VINCENT	0.10	0.11	780	1100	c/	1.92	0.504	0.094	1.322	0.000	1.921		0.000	$17.46
SAINT HELENA	0.01	0.01	1480	540	b/	0.47	0.937	0.468	0.000	0.000	1.405		0.932	$200.69
SURINAME	0.37	0.44	2770	3020		2.07	0.221	0.000	0.000	0.000	0.221	ncc/	-1.847	$0.50
TRINIDAD AND TOBAGO	1.14	1.26	6510	3160		2.36	0.470	0.235	1.186	0.000	1.891		-0.473	$1.50
TURKS AND CAICOS ISLANDS	0.01	0.01	680	780	b/	0.97	0.462	0.092	0.417	0.000	0.971		0.000	$107.93
URUGUAY	2.97	3.08	2450	2510	c/	5.91	0.625	0.313	3.789	0.000	4.728		-1.182	$1.53
VENEZUELA	17.26	19.24	3980	2420		4.73	1.380	0.690	1.712	0.000	3.782		-0.946	$0.20
Latin America/Caribbean subtotals		433.34				272.80	136.71	47.01	79.60	3.88	267.19		-5.607	$0.62
$ Per capita GNP groups														
0-375	2350.33	2649.29				1696.33	1567.59	503.58	9.21	103.75	2184.13		487.796	$0.82
0-750	2759.82	3135.68				2421.00	2153.71	711.82	30.81	135.71	3033.10		612.106	$0.97
750-1500	256.66	299.02				299.56	152.97	50.38	83.45	2.57	289.37		-10.186	$0.97
750-22260	795.73	919.52				503.50	190.29	62.38	178.63	2.57	436.01		-67.492	$0.47
above 3000 f/	82.159	91.834				39.22	9.54	2.01	0.00	0.00	11.55		-27.665	$0.13
Total Country IPFs	3555.54	4055.21				2924.49	262.30	83.12	209.44	138.28	3469.11		544.614	$0.86
Other Group totals														
LDC Total						1442.51	1128.95	542.31			1830.14	55.0%		
Islands/landlocked						1184.42	782.19	294.06			1185.02	34.2%		
Debt distressed						2306.94	1597.79	613.55			2406.50	69.4%		
Ecological,Geographic, Disasters						2395.00	1715.54	565.90			2503.07	72.2%		
NLMs						11.97					12.00			
MULTI-ISLAND IPF						5.87					7.00			
SUBTOTAL						2943.04					3484.80			
UNALLOCATED						18.36					100.00			
GRAND TOTALS						2961.40					3584.80			

a/ Does not include provision for IPF subline (decision 90/34, paragraph 13(a)) which is to be calculated

b/ Internal estimate for 1989 per capita GNP based upon World Bank, UNSO, OECD and/or other secondary sources.

c/ 1988 World Bank estimate, adjusted for 1989.

d/ Estimate based upon preliminary data from UNDP national accounts project.

e/ Merger of former Yemen and Democratic Yemen.

f/ Excluding small island developing countries with populations less than 2 million and per capita GNP below $4200.

ncc/ Decision 90/34 does not provide a framework for calculating fifth cycle country IPFs for countries with 1989 per capita GNP above $3000 (except small island countries with per capita GNP between $3000 to 4200 and population below 2 million). An illustrative IPF has been published for such countries based upon a zero value floor and assuming the methodology contained in the decision, pending the review of the net contributor arrangements by the Governing Council at its thirty-eighth session. No firm planning figures are therefore available for these countries.

UNITED
NATIONS

DP

Governing Council
of the
United Nations
Development Programme

Distr.
GENERAL

DP/1991/25
20 May 1991

ORIGINAL: ENGLISH

Thirty-eighth session
3-21 June 1991, New York
Item 5 (c) of the provisional agenda

SUPPORT COST SUCCESSOR ARRANGEMENTS

Report by the Administrator

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I. INTRODUCTION

1. The Governing Council, at its special session held in February 1991, considered the Administrator's progress report DP/1991/7 dealing with support cost successor arrangements. Following a detailed discussion, the Council referred the subject to a working group of the Council, to review the issues covered in the progress report and to provide further guidance to facilitate the preparation by the Administrator of a comprehensive report, to be submitted to the Council at its thirty-eighth session, as called for in decision 90/26. During the discussion, members of the Council expressed several views and made suggestions on the issues under consideration. However, the working group was not able to conclude the review and formulate recommendations for adoption by the Council. At the last meeting of the working group, the Associate Administrator summarized the issues for which Council members had expected more substantive coverage in the Administrator's report submitted at the thirty-seventh session. These points were later documented by the Associate Administrator and, at the request of the Chairman of the Council's working group, circulated by the United Nations Development Programme (UNDP) to all members of the Council. A copy of the note is attached in the annex.

2. The present report will not deal with those areas already covered in the Administrator's progress report submitted in document DP/1991/7. The Governing Council may therefore wish to review the present report in conjunction with document DP/1991/7. However, the present report will, to the extent possible, be self-contained and clear references made to the earlier document, as necessary.

3. As reported in document DP/1991/7, the Administrator had undertaken extensive consultations with the specialized and executing agencies of the United Nations system in the preparation of the interim report. These consultations, which were held in a constructive and cooperative spirit, were continued after the Council's special session. During this period, UNDP and the five agencies subject to the new regime have worked jointly on the compilation of data and in carrying out analyses requested by the Council. Additional consultations were also held with the World Bank and the agencies not subject to the new regime as well as with the Office for Project Services (OPS).

4. The Administrator is gratified with the progress achieved in elaborating the proposals for the implementation of the Governing Council's path-breaking legislation embodied in decision 90/26 despite the very limited time available since the special session in February 1991. He would like to express his appreciation to the agencies of the United Nations system which have collaborated with UNDP on the preparation of the present report.

II. OVERVIEW OF RESOURCE PROVISIONS

5. The present report will follow, to the extent possible, the order of the various provisions of decision 90/26. However, the Administrator considers it useful to provide, at the outset, a comprehensive financial summary of his proposals, as reflected in the provisions of resources for financing the various components of the successor arrangements for agency support costs. A substantive analysis of the individual subjects and the reasons for his recommendations, are included in the relevant sections of the report.

6. In the interim report to the Governing Council (DP/1991/7), the Administrator stated that in determining the overall resource earmarkings for the fifth programming cycle he had set aside an amount of $634 million, which represents approximately 14 per cent of total programmable resources, as a limitation on the total cost of all applicable provisions of the successor arrangements. At the special session in February 1991, the working group of the Council agreed that he should continue further development of his proposals to the Council on the basis of this understanding, as stated in paragraph 1 of annex I.

7. In tables 1 through 3, the individual components of the total package of successor arrangements and their estimated costs are shown. In preparing these estimates, certain assumptions regarding the percentages of total programmable resources likely to be implemented by various implementing agents have been made. These assumptions, which are based on the patterns experienced in the previous programming cycles, are shown in table 3. It should be added that these assumptions are valid only for purposes of arriving at preliminary resource provisions and will be subject to change on the basis of actual occurrences during the fifth cycle.

8. The financial estimates are shown in tables 1 and 2. These tables reflect two different methods of making reimbursements of certain components of support costs to the agencies. The first one assumes, in accordance with paragraph 11 of decision 90/26, that resources amounting to 10 per cent of the already announced indicative planning figures (IPFs) (adjusted for carry-over projects) would be transferred to a sub-line of the IPF to finance administrative and operational services. In this model, only minimal resources would be held centrally in UNDP to fund (a) support costs in respect of carry-over projects (i.e., projects approved before 1 January 1992); (b) the costs of flexibility arrangements; (c) support costs of Special Programme Resources (SPR)-financed projects; and (d) an amount to cover the difference between 13 per cent support costs payable to small agencies and 10 per cent limitation on amounts chargeable to the IPF sub-line. The second model assumes that the applicable resources to finance support costs for agencies is based on an interpretation of paragraph 4 of decision 90/26, which states that the essential elements of the current regime could continue to apply to these agencies. In this model, the IPF sub-line will receive only those resources relating to the administrative and operational services to be rendered by the five agencies concerned and for nationally implemented projects.

9. From the tables, it can be seen that resources have been provided for in a very tight manner and that no significant provision has been made for actual costs exceeding estimates. Such deviations could result from actual patterns of implementation differing from those assumed in the models shown. A provision for a minimum contingency reserve of $9.5 million has been made, however, to cover payments in excess of resources held centrally. This possibility could occur if the percentage of programmable resources implemented by agencies paid out of central resources were to increase at the expense of those paid from the IPF sub-line.

10. Following further review and consultations with the agencies, the Administrator believes that the provisions he has advanced in the interim report, particularly with respect to the technical support facilities, are appropriate. Further explanations and justifications for the recommendations are provided in the relevant sections of the present report.

Table 1. Successor arrangements to agency support costs

Model I: Provision of costs based on resources for Administrative and Operational Services (AOS) for all agencies transferred to a sub-line of the IPF

(Millions of United States dollars)

	Country IPF	Intercountry IPF	SPR	All resources combined		Notes
Programmable resources for the fifth cycle, of which	3 585	578	313	4 476		
Fifth cycle projects to be approved under transitionary arrangements	800	130	70		1 000	
Projects to be approved under successor arrangements	2 785	448	243		3 476	
Resources for successor arrangements				634.0		
Resources held centrally, of which				186.7		
Support costs for transitionary projects	86.4	14.6	7.4		108.4	
Payments for agencies subject to current regime from central resources	11.7	6.0	0.0		17.7	a/
Support costs for SPR-funded projects	0	0	23.3		23.3	
Costs of flexibility provisions for						
Agencies eligible under current arrangements					10.1	
Agencies (United Nations units) eligible under successor arrangements					17.7	
Contingency reserve					9.5	
Technical Support Services						
TSS-1 and TSS-2 combined				124.0		
Administrative and Operational Services resources to be transferred to IPF sub-lines, of which				323.3		a/
Country IPF					278.5	
Intercountry IPF					44.8	

a/ The provision for payments for agencies subject to current regime from central resources of $17.7 million and the provision of AOS resources to be transferred to IPF sub-lines of $323.3 million added together amount to $341.0 million. It may be noted that this amount is the same as in model II, as shown in footnote a/ of table 2.

/...

Table 2. Successor arrangements to agency support costs

Model II: Provision of costs based on Administrative and Operational Services (AOS) resources for agencies subject to current regime held centrally in UNDP

(Millions of United States dollars)

	Country IPF	Intercountry IPF	SPR	All resources combined	Notes
Programmable resources for the fifth cycle, of which	3 585	578	313	4 476	
Fifth cycle projects to be approved under transitionary arrangements	800	130	70	1 000	
Projects to be approved under successor arrangements	2 785	448	243	3 476	
Resources for successor arrangements				634.0	
Resources held centrally, of which				292.4	
Support costs for transitionary projects	86.4	14.6	7.4	108.4	
Payments for agencies subject to current regime from central resources	86.9	36.5	0.0	123.4	a/
Support costs for SPR-funded projects	0	0	23.3	23.3	
Costs of flexibility provisions for					
Agencies eligible under current arrangements				10.1	
Agencies (United Nations units) eligible under successor arrangements				17.7	
Contingency reserve				9.5	
Technical Support Services					
TSS-1 and TSS-2 combined				124.0	
Administrative and Operational Services resources to be transferred to IPF sub-lines, of which				217.6	a/
Country IPF				203.3	
Intercountry IPF				14.3	

a/ The provision for payments for agencies subject to current regime from central resources of $123.4 million and the provision for AOS resources to be transferred to IPF sub-lines of $217.6 million added together amount to $341.0 million. It may be noted that this amount is the same as in model I, as shown in footnote a/ of table 1.

/...

Table 3. Percentage of programmable resources estimated to be implemented by various implementing agencies in the fifth programming cycle

(Based on historical patterns)

Implementing agency	Country IPF	Intercountry IPF	SPR	All resources combined
Five agencies subject to the new regime	58	22	15	50.4
OPS	8	8	50	10.9
World Bank	5	15	5	6.3
National implementation	15	10	10	14.0
Other agencies	14	45	20	18.4
Total	100	100	100	100

III. TECHNICAL SUPPORT SERVICES

11. The Governing Council, in paragraphs 7 through 10 of its decision 90/26, established two technical support services facilities at the programme and project levels, which will be referred to in the present report as TSS-1 and TSS-2 respectively. The Council requested the Administrator to make detailed proposals for the implementation of these facilities at its thirty-eighth session (1991).

12. The working group of the Council, which discussed the interim report submitted at the special session in February 1991 (DP/1991/7), requested that the report to be submitted at the thirty-eighth session include a comprehensive and substantive analysis of these technical support services, including an assessment of the adequacy of the present funding arrangements for those services. Accordingly, a collective effort has been made by UNDP and the agencies concerned to identify and categorize these services as well as to collect data on the level of services currently provided and the sources from which they are financed.

13. In order to do so, all relevant areas of the fourth programming cycle activities of the agencies and UNDP were reviewed, including the regular programme work of the agencies in their standard-setting and substantive role; their research programmes in various sectors of competence; and operational activities funded by UNDP as well as other sources of financing. Data were collected from a variety of sources. The project databases maintained by the agencies and UNDP were reviewed to identify relevant projects through which sectoral and subsectoral analysis at the country level were carried out. In some cases, assessments of individual technical staff was sought. Ex post facto reports were another source of information. Finally, cost surveys conducted recently by a consultant firm for the purpose of establishing differential rates for clusters of services (see para. 47) also yielded data which were useful for this analysis.

14. Based on the data collected, two tables have been prepared showing the resources which were used for financing technical support services during the years of the fourth programming cycle, 1987-1991. Before providing an interpretation of the data, an important caveat must be mentioned. As already stated, it was difficult to obtain precise and fully comparable information on this subject; data from a disparate range of sources had to be reconciled and put together. However, the figures in the table are valid in orders of magnitude and can be relied upon by the Governing Council as rough assessments of the resources currently assigned to the various groups of services cited.

A. Technical support services at the programme level (TSS-1)

15. Table 4 is an aggregation of the data relating to technical support at the programme level and represents an approximation of the resources deployed during the fourth programming cycle for this purpose. In compiling the data, the list of services appended to decision 90/26 was used to categorize the

Table 4. Estimate of resources available for technical services at the programme level during fourth programming cycle

(Millions of US dollars)

Service	Agency regular programmes	Support cost income	UNDP (including IPF)	Total
(Sub)sector analyses	125	10	65	200
Direct policy advice to Governments	68	2	40	110
Country programme reviews	35	5	10	50
Thematic evaluations	5	0	5	10
Total	233	17	120	370

services, except for one change by which sectoral analysis (item A in the list) was combined with the development of sector-specific programmes (item C). This list was understood to include only country-specific, direct services and to exclude several other services of a global or intercountry nature which are carried out as part of an agency's sectoral mandate. The latter, which are financed from the regular programme budgets of the agencies, form an essential basis for further downstream work leading to formulation of technical cooperation programmes and projects. These activities consist mainly of global, regional and sectoral levels information collection, analysis and dissemination; maintenance of databases and statistics essential for keeping an institutional memory; sectoral and thematic evaluations; and participation in intergovernmental meetings and seminars in sectoral subjects. It is estimated that in financial terms, the allocation of resources to these activities exceed by several orders of magnitude, the amounts shown in table 4.

16. Table 1 is based on a restrictive interpretation of what may be classified as (a) country-specific (sub)sectoral analyses and studies and (b) the provision of policy advice to Governments based on such studies. The former includes regular sector assessments and analyses; reviews of sector development strategies and policies; the maintenance of country information at the sector level; needs identification and assessments; and regular consultations with Governments, funding institutions and donors on sector development activities. The latter involves direct policy advice and support to Governments and UNDP and the formulation of integrated programmes.

1. Interpretation of the data and conclusions drawn

17. The data provided show that a significant level of resources, amounting to $370 million, were available for programme-level technical support. Of this amount, sectoral and subsectoral analyses and needs identification and the development of sector-specific programmes and related studies amounted to approximately $200 million. The regular programme budgets of the agencies provided over 60 per cent of this amount while UNDP sources, mainly through IPF-financed projects, provided 30 per cent. Technical support involving the provision of direct advice to Governments and UNDP through policy-based studies was carried out in an ad hoc manner in response to specific requests of Governments. Country programme reviews were generally carried out using IPF resources but with the contribution of staff resources from the agencies, funded from their regular budgets. Only a small number of thematic evaluations were carried out during the fourth cycle, funded equally from agency and UNDP sources.

18. However, these studies are not fully exploited in all cases nor are their results directed to achieve maximum impact. There are several reasons for this.

19. In some instances, there is the absence of a firm link between technical studies and the overall planning and policy formulation process in the country itself - perhaps requiring ministerial and cabinet level consideration and explicit interest. This is an area where the ready and continuous access of UNDP to such decision-makers and coordinating ministries can make an important contribution.

20. Secondly, there are the benefits to be gained by further practical coordination among agencies in the scheduling and substantive harmonization of much of this kind of work. To some extent, this can maximize the combined use of diverse studies in a multidisciplinary, cross-sectoral setting.

21. Thirdly, the close attachment of such programme-level efforts to needs and demands as expressed at the country-level will be important. This will increasingly enable such work to blend priorities expressed in the various governing bodies with needs felt at the field level. Thus, global orientations may be better matched with specific country perspectives.

22. Finally, there is a need to link sectoral, subsectoral and policy advice activities closely with resource mobilization strategies, where appropriate. This, again, can benefit from the close relationships of UNDP with planning and finance ministries and with other sources of international development financing.

23. It is for these reasons that the establishment of TSS-1 has been a welcome development: it could have a catalytic effect in bringing together, at the country level, the excellent technical work being carried out by the agencies. The Governing Council will recall that in paragraph 8 of its decision 90/26, by which it established TSS-1 it was stated that TSS-1 should

provide "supplementary financing of identified programme-level services ... complementary to, and not substituting for the regular programme functions currently carried out by the agencies". Based on this, TSS-1 is being set up not to duplicate or add to the work already being done by the agencies but to address the issues described in paragraphs 18 through 22 above, so as to make these activities more effective and policy-oriented.

24. Accordingly, the purposes for which TSS-1 should be used include:

(a) Assist in ensuring that the sectoral activities of the agencies (specified in table 2) are based on integrated country-level needs, broadly synthesized and carried out at the appropriate time. For this purpose, it may be necessary to ensure that a specified number of major sectoral reviews are carried out for each country during a five-year programming period, if necessary by providing supplementary financing from TSS-1;

(b) Prepare cross-sectoral, policy-oriented analysis at the country level to support preparation of national development strategies and programmes; and

(c) Ensure participation by the sectoral agencies in country programmes and reviews.

2. Management of the TSS-1 facility

25. As previously described in document DP/1991/7, it is proposed that the following principles and considerations apply in the operation of the TSS-1 facility:

(a) At the field level, the United Nations Resident Coordinator, jointly with, and where appropriate, on behalf of the agencies concerned, will conduct discussions with the Government concerning its sectoral priorities and needs, as well as the specific assistance sought by the Government from the United Nations system for this purpose. The information collected will be communicated to the headquarters of UNDP and the agencies concerned;

(b) Based on the information provided, the agencies and the Regional Bureaux of UNDP will meet, at the headquarters level, in annual review meetings to draw up a work programme to be financed by the TSS-1 facility. Such a work programme will identify:

(i) The country-specific (sub)sectoral studies to be conducted by each agency, taking into account the relevant activities planned under the regular programmes of agencies and programming exercises such as national technical cooperation assessments and programmes (NATCAPs);

(ii) The adjustments required to ensure that the outputs of the studies are available in a synchronized manner and at the appropriate time to assist in the policy-making processes of the Government; and

(iii) Cross-sectoral, policy-oriented studies to be made available to the Government and external funding sources;

(c) The process described above should include sufficient flexibility to deal with changing circumstances and to respond to ad hoc requests;

(d) TSS-1 resources will be made available to the five agencies for two-year periods based on three-year forecasts, as called for in paragraph 9 of decision 90/26;

(e) The distribution of TSS-1 resources among the five agencies will be based initially, as suggested by the agencies themselves, upon their respective percentages of IPF expenditures during 1987-1990. Such an earmarking has been suggested by the agencies for an initial start-up period only and will be subject to revision for subsequent periods based on country-level demand as expressed through the process described above.

B. Technical support services at the project level (TSS-2)

26. Table 5 presents an assessment of various categories of technical services provided at the project level during the fourth programming cycle. The data relate only to the programmes and projects financed from UNDP resources and therefore exclude services which may have been provided in respect of projects financed from other sources available to agencies. The data are valid only in orders of magnitude for the reasons described earlier.

Table 5. Estimate of resources available for technical services at project level during fourth programming cycle a/

(Millions of US dollars)

Service	Agency regular programmes	Support cost income b/	UNDP (including IPF)	Total
Project identification and formulation	50	20	100	170
Project appraisal	15	5	-	20
Project monitoring and technical backstopping	80	75	35	190
Project evaluations	10	5	25	45
Total	155	105	160	420

a/ Applies to UNDP-financed programmes/projects only.

b/ Total income from support costs for fourth programming cycle estimated to be $280 million.

1. Interpretation of the data and conclusions drawn

27. Technical support services amounting to $420 million were provided during the fourth programming cycle, of which almost 40 per cent were met from agency regular budgets, 20 per cent from UNDP support cost income and 40 per cent from the IPF. Regular budget financing is usually provided for project formulation and monitoring through the assignment of staff resources. IPFs are usually used for project formulation activities and the in-country and travel costs of monitoring and evaluation missions.

28. A large part of the agency support cost income is assigned for project monitoring and technical backstopping activities. The term "monitoring" as used in the annex to decision 90/26 was understood to mean the monitoring and backstopping of projects by agency technical staff. This would include not only participation in tripartite reviews but also the continuous scrutiny of project progress and output and the provision of direct technical advice and support to projects as and when required.

29. The financing of project formulation activities from IPF sources, mainly through preparatory assistance projects is considerable. While precise figures are not available, it is estimated that an amount of $90 million was utilized from the IPF for this purpose. Preparatory assistance funds were

generally used for the in-country costs of missions and when external consultants are used, for their fees as well. Regular budgets and support cost income rather than IPF are used to cover costs of technical staff of agencies when they participate in project formulation activities.

30. A rough estimate of total project formulation costs for the cycle, based on average costs of formulation for various classes of projects, amounts to $170 million. Sixty per cent of this amount was financed from the IPF and 30 per cent from the regular programme budgets of the agencies.

31. Project monitoring costs amounted to $190 million. It will be seen from table 5 that the bulk of these costs were met from the agency budgets and support cost income and only to a limited extent from the IPF. The level of support that could be provided from these resources was generally considered to be inadequate.

32. Based on the data provided, considerable resources from a variety of sources were available for project technical services. However, in recent years there has been a decline in the level of support provided because of restrictions on agency regular budgets and rising costs from an increase in project complexity. It also appears that any decline in support cost income would primarily affect project technical monitoring; therefore agencies consider that it is to this stage of the project cycle that the resources of TSS-2 should be mainly directed. In this context, concern has also been expressed that any reductions in the level of funding available would have an unfavourable impact on the technical monitoring of nationally implemented projects. Any reduction in support cost income will also, to a lesser extent, affect project formulation.

2. Management of the TSS-2 facility

33. The Governing Council, in paragraph 10 of decision 90/26, requested the Administrator to recommend modalities for the management of the facility, including the possibility of holding the resources of TSS-2 centrally. The Administrator believes the following considerations should apply in this respect:

(a) TSS-2 funds should be earmarked for services to be provided by the agencies subject to the new regime;

(b) The use of TSS-2 should be demand-based and related directly to the requirements of individual projects in the sectors represented by the concerned agencies, regardless of implementation modalities;

(c) Payments should be made only for services sought and rendered;

(d) As provided for in decision 90/26, the responsibility for the management of the facility is entrusted to the Administrator. Accordingly, the authority for the approval of funds from the facility shall rest with the Administrator;

(e) Resources from the facility shall be made available to individual country and intercountry programmes in an open and equitable manner, subject to the requirements of individual projects.

34. Based on the above considerations, the Administrator proposes that the facility should be administered along the following lines:

(a) The overall management of the facility, including management of resources, shall be carried out centrally from UNDP headquarters;

(b) Approval of TSS-2 funds shall be in accordance with the currently established delegations of authority relating to approval of projects;

(c) While there will be no entitlements on the part of individual programmes to specific shares of the facility, to ensure equity in the distribution of resources of the facility, the funds shall be earmarked roughly in line with IPFs;

(d) These earmarkings may be adjusted up or down on the basis of actual use and need for services. Such adjustments shall be made centrally from UNDP headquarters;

(e) To encourage use of the facility, it is intended that unused earmarkings will lapse at year end and revert to the central TSS-2 fund. The earmarkings for subsequent years shall be determined annually on the basis of experience and estimated needs;

(f) The need for technical services to be funded from TSS-2 shall be determined on a project-by-project basis initially at the time of project formulation. Both the project and TSS-2 budgets shall be prepared and approved at the same time. Prior to approval, Resident Representatives will seek the technical comments of the specialized agency concerned in its field of competence. In preparing the budget, an estimate of the services required in terms of workmonths shall be made by the Resident Representative in consultation with the agency concerned. Costing of services shall be based on a standard cost per workmonth and will be budgeted for accordingly;

(g) It is understood that specialized agency technical services of monitoring and evaluation shall normally apply to all large-scale projects and projects of special complexity. Other projects shall be subject to these services as appropriate;

(h) UNDP will provide the specialized agencies, on an annual basis, with a report on the utilization of the TSS-2 fund;

(i) As shown in table 5, IPF and SPR resources have been available so far to finance several categories of technical services. It is assumed that these sources will continue to be available for these purposes.

35. The proposals described above relating to TSS-1 and TSS-2 were developed by UNDP, in full consultation with the specialized agencies concerned. The Administrator believes that the implementation of these proposals will lead to an enhancement of the quality of the technical support services provided by the agencies to the developing countries.

C. Resources for the technical support facilities (TSS-1 and TSS-2)

36. In the interim report to the Governing Council at its special session in February 1991 (DP/1991/7), the Administrator recommended that TSS-1 and TSS-2 be established at levels of $80 million and $44 million respectively, based on his interpretation of the relevant provisions of decision 90/26 and the availability of resources for financing the costs of successor arrangements to agency support costs. A further and detailed review of the financial provisions of the successor arrangements, including the costs of its individual components (see sect. II) and of the sources currently available for financing technical support services (tables 4 and 5) has been made by UNDP. On the basis of this review, the Administrator continues to believe that an amount of $124 million, as previously recommended, is the appropriate level for the two technical facilities combined. In this context, it may be recalled that the agencies viewed this amount as "close to meeting the minimum 'critical mass' required" (see para. 4 of annex II of document DP/1991/7).

37. In light of the data and analyses presented in paragraphs 11 through 35, however, the Administrator believes that the individual amounts for the two facilities may be reviewed again. In doing so, the Governing Council may wish to take the following into consideration:

(a) Agencies have stated that the present support cost income, used for project-level technical services, as shown in table 2, cannot be replaced by funds from their regular budgets. Therefore, agencies continue to believe that the previously recommended level of $44 million is insufficient. Concern has also been expressed that any consequent reduction in project monitoring services will have an immediate unfavourable impact on the quality of project implementation;

(b) The magnitude of resources needed for TSS-1, as a new facility, remains uncertain. While it is clear that the facility is a welcome initiative, essential for enhancing upstream sectoral activities, the possibility exists for it to be introduced at a lower level at the beginning and reviewed subsequently in 1994 on the basis of experience gained in the intervening period.

38. The Administrator recommends, therefore, that the Governing Council consider levels of TSS-1 and TSS-2 within an overall amount of $124 million.

IV. IPF SUB-LINE FOR ADMINISTRATIVE AND OPERATIONAL SERVICES

39. In paragraph 11 of decision 90/26, the Governing Council decided "that financing for administrative and operational support of projects should be drawn, starting from 1 January 1992 from a sub-line within country indicative planning figures to be created by transferring resources previously housed in the support cost line to this new indicative planning figure sub-line" and "to appropriate, as a working hypothesis, 10 per cent of country indicative planning figures for this purpose". At the same time, the Council also decided in paragraph 3 of decision 90/26 that "the basic elements of the current regime could continue for the smaller agencies and those for which the United Nations Development Programme-financed technical cooperation work is slight in the overall work of the agency". In interpreting these two provisions, taken together, the Administrator has reached the following conclusions:

(a) As a basic element of the current regime, the agencies which will be subject to it will continue to be reimbursed for their support costs out of resources held centrally in UNDP. For this purpose, an earmarking of the resources required would be made from the total amount ($634 million) set aside for financing the costs of successor arrangements;

(b) The amounts to be transferred to the country IPF sub-lines, in accordance with paragraph 11 of the decision, would be calculated, taking into account (a) above.

40. These interpretations were provided to the Governing Council in paragraph 6 of the Administrator's interim report contained in document DP/1991/7. During a discussion of this subject in the working group, some delegations stated that paragraph 11 of decision 90/26 required that a full amount of 10 per cent of country IPFs should be transferred to the IPF sub-lines and payments with respect to AOS for all agencies i.e., those subject to the new regime as well as those which will continue to be subject to the current regime, should be made from the sub-line. As stated in paragraph 3 of the annex, UNDP agreed to provide the Council with an analysis of the issues surrounding the implementation of paragraph 11 of decision 90/26 in relation to the agencies governed by the current regime.

41. Accordingly, the Administrator is presenting below an analysis of the two options suggested. In preparing this analysis, the Administrator sought and obtained the views of the agencies affected. Table 6 summarizes the advantages and disadvantages of the two methods, incorporating the views of the agencies. As discussed in paragraph 8, the financial provisions necessary under the two options are presented in tables 1 and 2.

TABLE 6. Comparison of methods of reimbursements for administrative and operational services

MODEL I

Based on all agencies being paid from IPF sub-line for administrative and operational services (flexibility payments and part of support costs of small agencies paid from central resources).

Advantages	Disadvantages
1. Provides similar treatment to all agencies.	1. More cumbersome accounting involving multiple accounts and split charges.
2. Decision-making on the choice of implementing agency could be free of considerations of source of support cost payments.	2. May induce some governments to negotiate a lower rate of support cost from small agencies, thus compromising a basic feature of current regime; also such project-by-project negotiations between a small agency and a Government on this matter are not practical, as the former typically does not have resident representation (other than through UNDP) in the field.
3. Incorporates incentive to national implementation in sectors represented by small agencies as in those represented by large agencies.	3. Agencies are concerned this model introduces greater degree of unpredictability in their operations.
4. Less risk of exceeding estimate of central allocation as resources held centrally smaller than in model II.	

MODEL II

Based on: (a) agencies subject to new regime paid from IPF sub-line; and (b) agencies continuing under current regime paid from central resources.

Advantages

1. Simplicity of administration resulting from:

   (a) Continuation of established modalities of payment for "small" agencies;

   (b) Accounting more straight forward as all payments from single central provision.

2. Preferred by agencies concerned because:

   (a) Avoids possible need for cumbersome project-by-project negotiations with governments;

   (b) Inherently more predictable than model I, which may bring extraneous financial consideration in the determination of small agencies as implementing agents.

Disadvantages

1. Countries which utilize small agencies disproportionately will benefit at the expense of other countries which utilize those agencies less than proportionately. This is because central allocation is estimated on the basis of global shares of small agencies versus big five agencies, a situation which may not apply at individual country levels.

2. May constitute a disincentive to national implementation in sectors represented by small agencies, as use of small agencies for implementation is support cost free as seen at country level.

3. Greater risk of exceeding central allocation than in model I.

42. It should be noted that the model I of table 6 is based on the premise that 10 per cent of the 13 per cent support costs payable to the small agencies will be charged to the IPF sub-line. The additional 3 per cent will be financed from a central allocation. The reasons for these premises are as follows:

(a) The IPF sub-line, as stated in paragraph 11 of decision 90/26, is expected to finance administrative and operational services only, as technical support services are financed from other sources. As the small agencies are entitled to a flat rate of 13 per cent, covering both AOS and technical services, only the former would be a legitimate charge to the sub-line. The latter should therefore be financed from a source analogous to the technical support facilities (TSS) which are funded from central resources;

(b) The resources available in the IPF sub-line, limited to 10 per cent of the IPF, are not sufficient to cover the totality of support costs. This will be especially so in countries which mainly or exclusively use small agencies, a situation not untypical of countries with small IPFs.

43. As stated earlier, the agencies concerned were invited by the Administrator to provide comments on this issue, some of which have been reflected in table 6. All expressed strong reservations on model I: they pointed out that it had not been considered during the period leading up to the adoption of decision 90/26. In their view, the introduction of model I at the present time has the effect of compromising the original intention of the legislation, stated in decision 90/26, that the basic elements of the current regime could continue to apply to them. Several agencies expressed a serious concern that some recipient governments may, under this proposal, be tempted to enter into negotiations with them with a view, in specific project situations, to obtain agreement on a rate lower than 10 per cent to be charged to the IPF sub-line. They pointed out further that, even though these are only accounting arrangements, the proposal will have the effect of introducing an apparent - and arbitrary - distinction between AOS charges (to be paid from the IPF sub-line) and technical services (to be paid from central resources). This method may therefore lead, at least prima facie, to a situation in which the small agencies become subject to a regime which resembles in appearance the new regime applicable to the five large agencies. This was not the intention of the original legislation, in which they were given a choice between the two regimes under consideration; they had in fact chosen to continue to be subject to the current regime.

44. Some agencies expressed an overall concern regarding the potential viability of technical cooperation activities in their respective fields, if model I were implemented. Since they are mostly small technical agencies without field representation and without a strong counterpart ministry advocating their sectoral interests, the risk existed, they believed, that projects in their areas of competence, which were often complex and required their technical involvement and support, would begin to decline. The resulting reduction in their support cost earnings might in turn lead to an erosion in the capacity of the technical agencies to deliver technical cooperation projects, a development which would be ultimately detrimental to the interests of the developing countries.

45. On the basis of the analysis presented above and the views expressed by the agencies concerned, the Administrator confirms that the conclusion he expressed in paragraph 6 of document DP/1991/7, on the method of charging support costs for these agencies, continues to be valid. Whichever method is chosen by the Governing Council, the Administrator strongly recommends that, as a minimum, the Council should unequivocally affirm that the support cost rate applicable to the small agencies would not be subject to negotiations on a project-by-project basis. To reinforce this, the Administrator should be authorized to charge automatically the respective accounts with the applicable support cost payments (in the case of model II, 13 per cent to central resources; in the case of Model I, 10 per cent to the IPF sub-line and 3 per cent to central resources).

V. COST SURVEY AND ESTABLISHMENT OF DIFFERENTIAL RATES

46. In paragraph 14 of decision 90/26, the Governing Council requested the Administrator to make proposals for standard differential rates for clusters of services related to administrative and operational support. In this connection, the Council authorized him to commission an independent survey of the cost of particular services provided by the executing agencies.

47. Accordingly, after consultation with the agencies concerned, the Administrator engaged a firm specializing in consulting services for not-for-profit organizations, to conduct the survey and to establish the relative cost of services through the development of preliminary rates which reflect the total cost of support to each cluster of service. After discussions with UNDP and the agencies, the consultant designed a methodology for the development of preliminary rates. This methodology provided for the following major tasks:

(a) Determination of the total cost of each major organizational unit within each agency based upon its 1990-1991 budgeted costs;

(b) Distribution of costs of agency-wide central services to units providing direct technical or administrative support to projects;

(c) Determination, through a survey of agency staff (selected on the basis of a statistically valid sample), of the amount of time devoted to the support of each of the various clusters of AOS services;

(d) Calculation of the actual cost of each cluster of service, including a share of central support costs (e.g., finance, space, personnel);

(e) Calculation of the 1990-1991 estimated field project delivery costs and computation of preliminary rates for each agency at the cluster level.

48. The status of implementation of the cost survey is as follows:

(a) The consultants have completed the collection of budgetary data as well as estimates, made by the staff concerned, of the time allocated by them in 1990 to various activities, including technical support to projects or programmes; administrative and operational support to projects; and regular budget activities. For the latter, as required by the methodology, a sample consisting of 20 per cent of the staff of each technical unit and 100 per cent of the staff of each administrative support unit was constituted;

(b) The survey results have been applied to the cost of each organizational unit which provides AOS support to projects to determine units costs for each cluster of service. Preliminary rates by agency and service cluster have also been established;

(c) The consultant has met with agency representatives to review the preliminary rates, to clarify issues, and to reach agreement on these rates. The validity and use of the preliminary rates have also been discussed at joint meetings with UNDP, agency staff, and the consultants. Certain concerns about the comparability of rates and completeness of the survey have been expressed by the agencies. The consultants have agreed that certain refinements will be necessary before an interim report can be issued;

(d) The consultant has stated that the impact of the refinements mentioned above could not be quantified without additional information. The consultant believes, at this point, that the preliminary rates developed using the methodology described are indicative of agency administrative and operational support to projects for the 1990-1991 biennium;

(e) The consultant is in the process of assisting UNDP and the agencies in developing a methodology for converting the rates based upon actual costs to reimbursement rates which recognizes that the latter should not, on the average, exceed 10 per cent of project value;

(f) The consultant expects to provide an interim report to the Administrator in June 1991 which will include the preliminary rates and the methodology mentioned in (e) above. That report will therefore be available in time for distribution to the Governing Council at its current session;

(g) The consultant anticipates that the refinements necessary to finalize the calculation of the actual costs of agency support of technical cooperation projects and the conversion of these cost calculations to support cost reimbursement rates can be completed by 31 October 1991. For the purposes of establishing the final rates, the consultant has recommended that agency budgets for the 1992-1993 biennium be used to ensure that the most current cost data are included and that structural changes and reorganizations, planned by the agencies, are reflected. This schedule will allow the agencies two months prior to the implementation of the support cost successor arrangements to design and install new mechanisms necessary for budgeting and reimbursement of support costs.

49. The Administrator is pleased with the progress achieved in this area in a very limited period of time and expects that the additional information to be provided to the Governing Council at its current session will permit a review and discussion of the subject. He would like to add that further refinements of the data and rates will need to be made, as stated in paragraph 47 above, before they are established for the successor arrangements scheduled to go into effect as of 1 January 1992.

VI. APPLICATION OF SUCCESSOR ARRANGEMENTS TO THE WORLD BANK GROUP

50. Although not explicitly required to do so by decision 90/26, UNDP held a detailed review with the World Bank regarding the method and rate of compensation which could be applied under the successor arrangements to UNDP-financed projects implemented by the World Bank Group. Support cost payments to the World Bank are currently reimbursed at a rate of 11 per cent for projects implemented by it. Following a detailed and careful review, the Administrator, in agreement with the World Bank Group, has formulated the following recommendation to the Governing Council:

(a) Support cost reimbursements to the World Bank Group should continue to be made at a fixed rate;

(b) This rate of reimbursement should be reduced from 11 per cent currently in effect to 10 per cent for projects to be approved after 1 January 1992.

51. This recommendation is made on the basis of the considerations detailed below:

(a) The World Bank estimates that the overall costs incurred by it in support of UNDP-funded activities fall in the range of 16-18 per cent and thus there has been a sharing of costs between UNDP and the World Bank;

(b) In the spirit of enhancing the strategic relationship existing between the two institutions for the purpose of helping to strengthen national capabilities in developing countries, the World Bank has agreed to accept a reduced rate of 10 per cent as support cost reimbursement for projects executed by it;

(c) The World Bank notes that it provides extensive technical support assistance to developing countries in the form of what is called "embedded" technical cooperation;

(d) In addition to support for project-related technical cooperation activities, the World Bank Group, with its multisectoral capacity, provides substantial support to upstream activities, in particular towards the development of macroeconomic analysis and sector analyses;

(e) The World Bank Group would expect that technical support services at the project level, including project design, monitoring and evaluation activities in respect of World Bank-implemented projects could be funded from project resources in agreement with the government concerned;

(f) The World Bank Group preferred that support cost reimbursements should be made from resources held by UNDP centrally.

VII. APPLICATION OF SUCCESSOR ARRANGEMENTS TO THE OFFICE FOR PROJECT SERVICES

52. In paragraph 5 of decision 90/26, the Governing Council requested the Administrator to submit proposals on the appropriate application of successor arrangements to services provided by OPS.

53. Under the current regime, OPS is reimbursed at the rate of 11 per cent for projects financed by IPF funds. Even though OPS has recently devised its own methodology for computing reimbursement rates for activities carried out under management services agreements, which might also have been applicable to other activities, UNDP considered it appropriate to have an independent cost survey of OPS-implemented, IPF-funded activities conducted by the consultant firm referred to in paragraph 47, in order to formulate proposals to the Governing Council for the application of successor arrangements to OPS. It was considered particularly appropriate since in paragraph 5 of decision 90/26 the Council requested that the results of the work carried out in respect of the agencies subject to the new regime be taken into account in this study as well.

54. The study is currently in progress. The consultant initiated the cost survey of OPS after work with the five agencies had been launched so that the methodology used with the agencies could be applied to OPS. The consultant reports that the study with OPS will be completed before the start of the thirty-eighth session of the Governing Council. The interim report of the consultant, referred to in paragraph 47, will contain the results of the study and the conclusion and recommendations of the consultant.

55. In preliminary discussions with OPS and the consultant, it became apparent that a differential rate structure for clusters of AOS services could be applied to OPS as well. In this context, it also appears, based on preliminary analysis, that the rate of compensation for AOS to be paid to OPS for IPF-financed projects would not, on the average, exceed 10 per cent of the project value. If this preliminary analysis is borne out by the results of the cost survey, the Administrator intends to reduce the overall rate or reimbursement from 11 per cent to 10 per cent. This change would bring the level of reimbursement to OPS in line with that suggested for the World Bank in section VI above and to those of the agencies subject to the new regime. Also, as mentioned in paragraph 50 (e) for the World Bank, technical support services at the project level for projects implemented by OPS could be funded from project resources in agreement with the governments concerned.

56. The development of the financial provisions of the successor arrangements described in section II above are based on the assumptions described in paragraph 55. It must be added, however, that these estimates are subject to validation by the cost survey. It is expected that the results of this survey will be available in time for deliberations of the Governing Council at its current session.

VIII. INTERCOUNTRY PROJECTS AND PROJECTS FINANCED BY SPECIAL PROGRAMME RESOURCES

57. In paragraph 13 of decision 90/26, the Governing Council requested the Administrator to make proposals for the charging of administrative and operational support costs in respect of regional, interregional, and global projects as well as projects funded from SPR. In this connection, it should be noted that during the fourth programming cycle the five agencies subject to the new regime implemented approximately 20 per cent of intercountry projects and projects financed by SPR.

58. In formulating proposals on this subject, the Administrator concluded that considerations of simplicity and consistency in the application of the successor arrangements required that any one agency should be subject, as far as possible, to one regime of support costs only, irrespective of the UNDP sources of financing. Thus, the Administrator would recommend that the proposals made in respect of country programmes should apply to intercountry programmes and SPR-financed projects as well, subject to the provisions described in paragraph 58 below. This proposal is consistent with paragraph 13 of decision 90/26, which requires that the appropriation for technical services support be calculated taking account of these programmes.

59. This proposal therefore requires that the five agencies subject to the new regime should be reimbursed for AOS in accordance with the standard differential rate structure to be established for this purpose. The charges for these services will be made to IPF sub-lines to be established for the intercountry programmes and SPR in the same manner as for country programmes, as discussed in section IV above. The resources to be transferred to these sub-lines and the method of reimbursement will follow the decisions of the Governing Council in respect of country programmes.

60. The sub-line for the regional IPFs will be managed by the regional programmes divisions in each regional bureau; for interregional and global projects by the Division for Global and Interregional Programmes; and for projects funded from SPR by a central unit, in much the same manner as the programme resources themselves are managed. The requirements currently in effect requiring consultations with a specified number of governments participating in intercountry programmes will also apply in the use of the sub-lines.

61. The amounts provided for the sub-line and resources to be held centrally in respect of these sources of funds have been calculated taking into account a projected mix of implementation by various agents, as shown in table 3.

IX. FLEXIBILITY PROVISIONS

62. Paragraph 16 of decision 90/26 deals with flexibility provisions and contains a request to the Administrator to make specific proposals, in consultation with the agencies concerned, on the operation of such a system, taking account of inflation since 1982; the undesirable effect of sudden steps in computing rates; and the budgetary capacities of the agencies involved. UNDP has held several consultations with the agencies concerned and proposals have been jointly developed on this subject. These proposals were reported to the Governing Council in paragraph 22 of the interim report contained in document DP/1991/7.

63. In the discussion of this subject in the working group, several delegations requested that further explanation and justification be provided by UNDP for the inclusion of United Nations entities, excluding the Department of Technical Cooperation for Development (DTCD), among the organizations which could be eligible for flexibility payments. These entities include the regional economic commissions, the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC), United Nations Centre for Human Settlements (Habitat) (UNCHS), and the United Nations Centre on Transnational Corporations (UNCTC), which have been designated as executing agencies for UNDP-financed projects. The request of the working group for this justification is recorded in paragraph 5 of the annex.

64. In preparing the present section, the Administrator has carried out the necessary consultations with the United Nations. The explanations provided by the United Nations are summarized below. In this connection it is recalled that the Governing Council, in paragraph 3 of decision 81/40 of 30 June 1981, decided that "only autonomous organizations within the United Nations system shall be eligible for support cost flexibility arrangements". This decision was based, in part, on the view of the then Administrator that the component entities of the United Nations received administrative, financial and logistical support from the United Nations and that the totality of their respective support cost expenditures was not readily identifiable. Therefore, UNDP considered that a case had not been made for granting them support cost flexibility entitlements. The present Controller of the United Nations points out that this decision of the Council was taken despite strenuous objections put forward at the time by the United Nations. He further points out that previously one of the component entities of the United Nations, i.e., UNCTAD, had enjoyed eligibility for and received flexibility support.

65. The Controller recalls that in 1979 the regional economic commissions of the United Nations, under the terms of General Assembly resolution 33/202 of 29 January 1979 on the restructuring of the economic and social sectors of the United Nations, became executing agencies of UNDP in their own right. In terms of both programme and the related financing, including support costs, each of the regional commissions and the other component entities of the United Nations (eight in all) responsible for the implementation of UNDP-funded projects, function as full-fledged partners of UNDP, with which they deal directly. As such, each of these entities maintains both an

administrative and a substantive infrastructure to support the delivery of the technical cooperation programme funded by UNDP. Therefore, while they are component entities of the United Nations, they operate as a microcosm of the Organization in the delivery of technical cooperation. Furthermore, the regional commissions, UNCTAD, ITC and UNCHS, as executing agencies of UNDP, are entrusted with responsibilities for the delivery of programmes which are as explicitly defined as those of the smaller agencies of the United Nations. They also share, to some extent, the same difficulties which led the Governing Council to authorize flexibility arrangements for the small agencies, since it is recognized that support cost reimbursements do not cover the entire costs related to the provision of support services. For example, these units of the United Nations must attract and retain staff of the same calibre and at the same salary levels as other executing agencies of UNDP, notwithstanding the smaller amount of support costs reimbursement available to them. As most of these units are located in the developing world, certain types of expenses, such as communications costs and travel, may well be higher for these units than similar costs in the small European-based executing agencies. The size of the technical cooperation programmes of each of these entities is such that economies of scale in their operations are not applicable. For most of them, the opposite is the case. They must maintain a minimum basic infrastructure to meet support needs in technical and non-technical areas, irrespective of the size of the programme delivered, thus resulting in a substantial subsidy from the regular budget.

66. The United Nations argues strongly that the existence of the clear, distinct mandates for these entities as well as separate infrastructures to support the delivery of technical cooperation in their respective areas of responsibility justify entirely the provision of support costs flexibility. These arguments are advanced by the United Nations without prejudice to the Administrator's presentation in document DP/1991/7, made on the basis of paragraph 3 of decision 90/26, which established a distinction between DTCD and the other component entities of the United Nations. Should the Governing Council authorize such support cost flexibility payments, the rules applicable to the other small agencies, i.e., the annual submission by these agencies to the Administrator of clear documented evidence of the need for and the size of the flexibility requirements prior to the authorization of such payments, would obviously apply to each of the entities of the United Nations.

X. CURRENCY FLUCTUATIONS

67. In paragraph 17 of its decision 90/26, the Governing Council requested the Administrator, in consultation with the agencies concerned, to make detailed proposals for mechanisms to provide a reasonable degree of protection from exchange rate movements, taking account of the need to share at least part of the foreign exchange risk with the executing agencies. The Council further specified that the proposals should have no net cost over time.

68. An outline of the proposal being developed by the Administrator following consultations with the agencies was provided to the Governing Council in paragraphs 23-27 of annex III of the interim report contained in document DP/1991/7. Subsequently, this outline proposal was further discussed and elaborated on with the agencies. As a result of these discussions, the Administrator has prepared a proposal which involves the application of a moving United Nations operational exchange rate to all support cost payments. The Administrator believes that this system would provide a reasonable degree of protection to the agencies from exchange rate movements without compromising the basic principle of UNDP resource management processes which aim to maximize the resources available for technical cooperation activities.

69. The proposal is based on the following premises:

(a) The value of the dollar vis-à-vis other currencies will fluctuate around an average rate over the years of the fifth and sixth programming cycles. In other words, there will be no secular increase or decrease in its value over this period. As a result, currency protection payments will be made by UNDP as the dollar weakens and there will be repayments by the agencies to UNDP as the dollar strengthens;

(b) The use of a moving average of United Nations operational rates of exchange based on the five previous years, as opposed to using the current rate alone, would provide agencies with protection against sharp annual swings in exchange rates;

(c) The cost to UNDP in any one year should not exceed a predetermined percentage of the support costs earned by the agencies in that year;

(d) The cost to UNDP for a period of five years should not exceed 5 per cent of the total agency support costs and should net out to be zero over a period of 10 years.

70. Based on these premises, the proposed system would be administered along the following lines:

(a) The accounting and reporting procedures currently in effect would continue to be applied; the appropriate United Nations operational rates of exchange would be used to record expenditures and support cost earnings on a monthly basis. At the end of a year, the support cost earnings in the currency of the country in which the agency's headquarters is located (referred to hereafter as local currency) would be calculated by applying the average United Nations operational exchange rate for the year to recorded dollar support cost earnings;

(b) This amount (the "standard amount") would then be compared with the amount in local currency (the "adjustment amount") calculated by applying the moving average United Nations operational exchange rate for the five previous years to the same dollar support cost earnings. If the adjustment amount were greater than the standard amount, UNDP would pay the agency concerned the difference in local currency, up to a maximum in any one year of the local

currency equivalent of 20 per cent of the dollar support costs earned in that year, subject to a maximum limitation for the programming cycle of 5 per cent of the agency's budgeted support costs for the cycle. If the adjustment amount were smaller than the standard amount, the agency concerned would repay UNDP the difference in local currency, subject to the same percentage maxima. In no case would an agency repay UNDP an amount greater than it had received from UNDP since the inception of the scheme;

(c) To ensure that the net cost over time was zero, agencies would repay to UNDP by the end of the sixth programming cycle any outstanding balances unless the balance had already been reduced to zero at some time within the previous five years.

71. On the basis of the total financial provisions for the successor arrangements for the fifth programming cycle of $634 million, a 5 per cent limitation on the currency protection payment would amount to $32 million. However, it is not expected that this maximum would ever be reached as a certain part of support costs payments are denominated and made in dollars. This would, however, be the hypothetical maximum "cost" to UNDP for the fifth cycle if the dollar had weakened to such an extent as to require net payments up to the maximum limitation level. The proposal requires that any amounts thus outstanding at the end of the fifth cycle should be recovered by the end of the sixth cycle, unless previously repaid at some stage in the sixth cycle. These amounts outstanding at the end of the fifth cycle could then be viewed as advances made to the agencies.

72. It should be noted that any "costs" arising from this proposal will be charged to the item in UNDP accounts entitled "other income", where exchange rate fluctuations are recorded and reflected. These charges are not made to the agency support costs.

73. The agencies, while appreciating that the scheme is expected to have zero cost over time, disagree with the provision for repayment by the end of the sixth programming cycle and indicate that they could not commit themselves to repayment at any specific time. In addition, they feel that the application of the proposed maxima would not provide adequate protection in the case of a persistent downward trend in the value of the dollar and that the application of the proposed maxima under such conditions would not meet the requirement in Governing Council decision 90/26 for a scheme giving a reasonable degree of protection.

74. The Administrator submits that in the case of a persistent downward trend in the value of the dollar it is impossible both to protect the agencies and have zero cost over time. In addition, cases are conceivable where a large fall in the dollar could cause a major impact on support costs earned while limitations on currency protection payments would still be necessary to limit such payments to a reasonable amount. Therefore, the scheme as outlined above is designed to ensure the zero cost over time criterion is met while expecting that, on the basis of normal cycles of exchange rate movements, a reasonable degree of protection will be offered. If the agencies were to be guaranteed

protection under all circumstances, including precipitate declines or persistent weakness of the dollar, then the requirement for zero cost over time would have to be eliminated. In the Administrator's view, the proposed scheme balances the two requirements for zero cost and reasonable protection.

XI. TRANSITIONAL ARRANGEMENTS

75. Paragraph 20 of decision 90/26 deals with transitional arrangements. In paragraph 25 of his interim report (DP/1991/7), the Administrator informed the Governing Council that the financial package discussed with the agencies in Geneva in November 1990 provided adequate transitional safeguards for the five agencies subject to the new regime, in particular for the next biennium, 1992-1993. Current estimates were that income for the five agencies, taken together, for the next biennium, would approximate the income which the agencies would have received had the current regime continued in the fifth programming cycle. This was based on the assumption that in accordance with past patterns of programme build-up, projects to the extent of $500 million for the five agencies would be approved before 1 January 1992, when the successor arrangements go into effect. Accordingly, these projects, even though they are financed from fifth cycle resources, would be subject to the current regime and therefore earn support costs at a rate of 13 per cent.

76. The agencies concerned have since pointed out that because of the relatively slow build-up of the programme in 1991, the target of $500 million of projects to be approved before 1 January 1992 may not be achieved and therefore the projected income for the biennium 1992-1993 may not be realized. To meet this concern of the agencies, the Administrator recommends that the application of 13 per cent support cost rate continue beyond 1 January 1992 until such time as the project budget portfolio for 1992 and future years for the five agencies combined reach the target level of $500 million, or until 30 June 1992, whichever comes first. It should be noted that, on the basis of the latest analysis of the data available, UNDP considers it likely that the target of $500 million of project approvals against fifth cycle resources for these agencies will be achieved during the first quarter of 1992, at the latest.

77. The five agencies have further argued that the level of income to be earned by them from the IPF sub-line, as compensation for AOS, will remain uncertain for a period of time until a definite pattern of use of these services by the governments is established. This uncertainty is further compounded by the proposed arrangements for the management of TSS-2, which also, according to them, do not provide sufficient predictability of earnings for the individual agencies concerned. During this interim period therefore, it is claimed, it would not be possible for the agencies to prepare reasonably accurate estimates of potential earnings under the successor arrangements for incorporation in their biennial budgets. To compensate for these uncertainties and to provide a base from which the next biennial budgets could be prepared, the agencies proposed that they should be given assurances that for each of the first three years of the fifth programming cycle,

i.e., 1992-1994, their support cost earnings should not be allowed to fall by more than 7.5 per cent per year when compared to the average annual support cost earnings each of them has had during the last years of the fourth cycle.

78. The Administrator has given careful consideration to these arguments. In order to present his analysis of the transitionary situation, table 6, showing his projections of income for the five agencies concerned, has been prepared. It is based on a similar presentation provided to the Governing Council in document DP/1991/7.

79. Table 6 shows that under the new regime, the agencies can expect to receive from UNDP sources an amount of $189.5 million for the five years combined (line 3). This amount excludes any potential earnings from the provision of administrative and operational services, which will be financed from the IPF sub-line. On the other hand, the average annual income during the fifth programming cycle which the five agencies could expect to receive, if the current regime of 13 per cent support costs reimbursement were to continue in the fifth cycle, would amount to $58.2 million or $291.0 million for the five years combined (line 4). It would appear, therefore, that income to the extent of $101.5 million for the five years from AOS will be sufficient to match the income likely to be generated under the current regime (line 5 (b)).

80. Applied to a three year transitionary period i.e., 1992-1994, as proposed by the agencies, the income necessary from AOS sources would amount to $42.7 million (line 5 (b)). This would require that the five agencies together implement projects amounting to $427 million during this transitionary period (line 6). The table shows in line 7 that if the five agencies together implemented as little as 20 per cent of the total programme to be approved during this period, the resulting income would equal that which would have been earned under the old regime. This compares with 50 per cent of all programmable resources normally implemented by these agencies.

81. Based on the above analysis, the Administrator is of the view that during a transitionary period of three years, the total income for the agencies will equal and perhaps exceed that which they would have received with continuation of the current regime. He therefore considers the request for further transitionary measures unnecessary. Furthermore, while the Administrator fully appreciates the argument that predictability of income is important for the budgeting exercise of the agencies, he feels compelled to point out that, as a voluntarily funded organization, the provision of a guarantee by UNDP of a floor below agency income, would require the creation of a special financial reserve funded from current resources. Decision 90/34 on the fifth programming cycle and the financial envelope arising from that decision for the successor arrangements do not contain any provisions for such a reserve. The Administrator therefore recommends that the Governing Council accept his first proposal, described in paragraph 76, which he believes offers adequate safeguards to the agencies during the transitionary period.

Table 6. Estimated income for five agencies subject to the new regime from UNDP sources during the fifth cycle

(Millions of dollars)

	1992	1993	1994	1995	1996	Total fifth cycle
1. TSS-1 and TSS-2 combined	15.4	24.4	26.6	28.8	28.8	124.0
2. Projects to be approved before 1 January 1992	43.6	14.6	7.3	0.0	0.0	65.5
3. Total (1) + (2)	59.0	39.0	33.9	28.8	28.8	189.5
4. Income if old regime is continued in fifth cycle (i.e., at 13 per cent rate)	58.2	58.2	58.2	58.2	58.2	291.0
5. Additional income from AOS necessary to match income based on old regime:						
(a) Annual (4) - (3)	(0.8)	19.2	24.3	29.4	29.4	101.5
(b) Cumulative (from 1 January 1992)	(0.8)	18.4	42.7	72.1	101.5	101.5
6. Cumulative value of projects necessary to be implemented by five agencies to earn AOS income mentioned in 5 (b) (5 (b) x 10)	(8)	184	427	721	1 015	1 015
7. Programmable resources available during period (cumulative from 1 January 1991)	695	1 390	2 085	2 780	3 416	3 476
8. Percentage of programmable resources necessary to be implemented by five agencies ((6(/(7) x 100)		13	20	26	29	29

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XII. COST MEASUREMENT SYSTEM

82. In paragraph 21 of decision 90/26, the Governing Council requested the Administrator, in consultation with the agencies, to prepare a report to the Council as to the feasibility, benefits and costs of introducing a generally acceptable and uniform cost measurement system. Accordingly, the independent consultant, referred to in paragraph 47, was asked to address this issue, in conjunction with the cost survey being conducted by him in the five agencies subject to the new regime. The consultant has submitted an interim report which will be reviewed with the agencies concerned. A final report is expected to be submitted by the consultant along with the final report on the cost surveys mentioned above. Based on this report, and the comments of the agencies, the Administrator will submit his proposals to the Council at its thirty-ninth session (1992).

XIII. MONITORING AND EVALUATION

83. In paragraph 23 of decision 90/26, the Governing Council requested the Administrator to present a proposal for the independent monitoring and evaluation of the new arrangements. In discussion with the agencies, it has been proposed that an evaluation of the new system be conducted in late 1993 in time for its results to be reported and considered by the Council at its forty-first session (1994). The scope and terms of reference for such an evaluation will be submitted to the Council at its thirty-ninth session (1992), following consideration of the present report by the Council.

84. UNDP intends to monitor carefully the implementation of the new arrangements beginning 1992 and expects to form an inter-agency task force for this purpose. Preparations for the introduction of the new system are currently under way and following a decision by the Governing Council at its current session, UNDP will carry out a programme of briefings and seminars on the modalities of implementation for the field personnel of UNDP, the agencies and government.

Annex

UNDERSTANDINGS REACHED AT THE INFORMAL MEETING OF THE WORKING GROUP OF THE GOVERNING COUNCIL, HELD 20-29 FEBRUARY 1991

During the special session of the Governing Council held in February 1991, an informal working group of the Governing Council considered the Administrator's progress report contained in document DP/1991/7 on successor arrangements to agency support costs. At the conclusion of the meeting, the Associate Administrator, basing his remarks on the comments made by the various delegations and views expressed thereon, summarized the main points arising from the meeting as follows.

1. It was confirmed in the discussions that the financial expenditure ceiling for the planning of the successor arrangements for agency support costs for the fifth programming cycle would be $634 million, representing 14 per cent of programmable resources.

2. The Associate Administrator assured the members, on behalf of both UNDP and the agencies concerned, that the report to be submitted to the Governing Council at its thirty-eighth session would include a comprehensive and substantive discussion of technical support services at the programme and project levels (TSS-1 and TSS-2), including an assessment of the adequacy of present funding arrangements for those services (as requested in paragraph 10 of decision 90/26).

3. He also stated that the report would include an analysis of the issues surrounding the implementation of paragraph 11 of decision 90/26 in relation to the agencies governed by the old regime of support costs.

4. The Associate Administrator reiterated that UNDP would report to the Governing Council at its thirty-eighth session, as called for in paragraph 20 of decision 90/26, on the potential need for transitional arrangements to permit adjustments by agencies and governments, including the possibility of applying the old regime arrangements until the programme has built up to a level of $500 million (for the five large agencies combined) or 30 June 1992, whichever occurs earlier.

5. The report would include a full justification for the Administrator's proposals on flexibility arrangements in relation to the United Nations entities.

6. The Associate Administrator informed the meeting that UNDP would release the unedited, final version of the paper to be submitted at the thirty-eighth session (i.e., the "yellow" copy) by 30 April 1991. Additional time would be taken to enable UNDP to develop a comprehensive paper, taking fully into account the requests and comments made by members of the working group. The additional time was also necessary to incorporate the work of the independent consultants on the development of a differential rate structure for administrative and operational services.